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Chapter L

## **Conflicts Of Interest & Other Ethical Considerations for In-House and Outside Counsel**

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***Conflicts Of Interest & Other Ethical Considerations For In-House  
And Outside Counsel***

William H. Roberts and Jeremy A. Rist, Blank Rome LLP

**TOPIC 1: Ethics Issues Associated With Lawyer Mobility – The In-House Context**

- I. Ethics Issues Arising From Lawyer Mobility – They Apply To Both In-House And Outside Counsel.**
- A. Corporate Law Departments and the Rules of Professional Conduct.**  
The Model Rules of Professional Conduct, as well as the Rules as adopted by most jurisdictions, include attorneys working in corporate law departments within their scope.
1. Pennsylvania RPC 1.0(c) defines a “firm” or “law firm” as “a lawyer or lawyers in a law partnership, professional corporation, sole proprietorship or other association authorized to practice law; or lawyers employed in a legal services organization *or the legal department of a corporation or other organization.*”
  2. New York RPC 1.0(h) similarly defines “firm” or “law firm” as “includ[ing], but . . . not limited to, a lawyer or lawyers in a law partnership, professional corporation, sole proprietorship or other association authorized to practice law; or lawyers employed in a qualified legal assistance organization, a government law office, or the legal department of a corporation or other organization.”
- B. The Key Rules.**
1. Model Rule 1.9: Duties to Former Clients.
    - (a) A lawyer who has formerly represented a client in a matter shall not thereafter represent another person in the same or a substantially related matter in which that person's interests are materially adverse to the interests of the former client unless the former client gives informed consent, confirmed in writing.
    - (b) A lawyer shall not knowingly represent a person in the same or a substantially related matter in which a firm with which the lawyer formerly was associated had previously represented a client
      - (1) whose interests are materially adverse to that person; and

- (2) about whom the lawyer had acquired information protected by Rules 1.6 and 1.9(c) that is material to the matter; unless the former client gives informed consent, confirmed in writing.
- (c) A lawyer who has formerly represented a client in a matter or whose present or former firm has formerly represented a client in a matter shall not thereafter:
  - (1) use information relating to the representation to the disadvantage of the former client except as these Rules would permit or require with respect to a client, or when the information has become generally known; or
  - (2) reveal information relating to the representation except as these Rules would permit or require with respect to a client.

2. Model Rule 1.10: Imputation of Conflicts of Interest.

- (a) While lawyers are associated in a firm, none of them shall knowingly represent a client when any one of them practicing alone would be prohibited from doing so by Rules 1.7 or 1.9, unless
  - (1) the prohibition is based on a personal interest of the disqualified lawyer and does not present a significant risk of materially limiting the representation of the client by the remaining lawyers in the firm; or
  - (2) the prohibition is based upon Rule 1.9(a) or (b) and arises out of the disqualified lawyer's association with a prior firm, and
    - (i) the disqualified lawyer is timely screened from any participation in the matter and is apportioned no part of the fee therefrom;
    - (ii) written notice is promptly given to any affected former client to enable the former client to ascertain compliance with the provisions of this Rule, which shall include a description of the screening procedures employed; a statement of the firm's and of the screened lawyer's compliance with these Rules; a statement that

review may be available before a tribunal; and an agreement by the firm to respond promptly to any written inquiries or objections by the former client about the screening procedures; and

- (iii) certifications of compliance with these Rules and with the screening procedures are provided to the former client by the screened lawyer and by a partner of the firm, at reasonable intervals upon the former client's written request and upon termination of the screening procedures.

- (b) When a lawyer has terminated an association with a firm, the firm is not prohibited from thereafter representing a person with interests materially adverse to those of a client represented by the formerly associated lawyer and not currently represented by the firm, unless:
  - (1) the matter is the same or substantially related to that in which the formerly associated lawyer represented the client; and
  - (2) any lawyer remaining in the firm has information protected by Rules 1.6 and 1.9(c) that is material to the matter.

### **C. How the Conflict Rules Typically Apply in the Law Firm Context.**

1. Case #1: Lawyer Moving From Law Firm to Law Firm. What is ordinarily done?
  - (a) Conflict analysis and screening -- Obtain a list of the clients the lateral lawyer anticipates may follow, and perform a conflict analysis. Information regarding the clients of the previous firm on whose matter the lawyer has recently worked, or about whom the lawyer has material information, is used in a limited way for screening, consent, and notice purposes.
  - (b) Ancillary concepts and practices:
    - (1) Restrict information to the conflict checking staff and the General Counsel's office.
    - (2) Need a conflicts database, listing all existing and former clients, and all adverse parties in all matters. Also need a staff trained to analyze the result of conflict searches,

and lawyers assigned to apply the applicable ethical rules to the facts of each case, and to resolve conflicts through consents, screens, and notices, where required.

- (3) Run conflict checks on the potential new clients.
- (4) Collect information from the lateral and run searches to determine whether the lateral has any material information about the other side of a matter the new law firm is handling.
- (5) If there is a conflict, be prepared to comply with the different versions of Rule 1.10 in various jurisdictions, to the extent they may be relevant.

2. Case #2: Moving from Public Service to a Law Firm. This implicates Model Rule of Professional Conduct 1.11, a special rule regarding lawyers for public agencies and judges.

- (a) Except as law may otherwise expressly permit, a lawyer who has formerly served as a public officer or employee of the government:
  - (1) is subject to Rule 1.9(c); and
  - (2) shall not otherwise represent a private client in connection with a matter in which the lawyer participated personally and substantially as a public officer or employee, unless the appropriate government agency gives its informed consent to the representation.
- (b) When a lawyer is disqualified from representation under paragraph (a), no lawyer in a firm with which that lawyer is associated may knowingly undertake or continue representation in such a matter unless:
  - (1) the disqualified lawyer is screened from any participation in the matter and is apportioned no part of the fee therefrom; and
  - (2) written notice is promptly given to the appropriate government agency to enable it to ascertain compliance with the provisions of this rule.
- (c) Except as law may otherwise expressly permit, a lawyer having information that the lawyer knows is confidential government

information about a person acquired when the lawyer was a public officer or employee may not represent a private client whose interests are adverse to that person in a matter in which the information could be used to the material disadvantage of that person. As used in this Rule, the term “confidential government information” means information that has been obtained under governmental authority and which, at the time this Rule is applied, the government is prohibited by law from disclosing to the public or has a legal privilege not to disclose and which is not otherwise available to the public. A firm with which that lawyer is associated may undertake or continue representation in the matter only if the disqualified lawyer is screened from any participation in the matter and is apportioned no part of the fee therefrom.

- (d) As used in this Rule, the term “matter” includes:
- (1) any judicial or other proceeding, application, request for a ruling or other determination, contract, claim, controversy, investigation, charge, accusation, arrest or other particular matter involving a specific party or parties; and
  - (2) any other matter covered by the conflict of interest rules of the appropriate government agency.

**D. Parallel Scenarios for the In-House Lawyer or Corporate Law Department.**

1. Lawyer moving from one corporate law department to another corporate law department: Rule 1.10, Rule 1.9.
2. Lawyer moving from private law practice to a corporate law department: Rule 1.10, Rule 1.9.
3. Lawyer moving from a corporate law department to a private law firm: Rule 1.10, Rule 1.9.
4. Lawyer moving from public service to a corporate law department: Rule 1.11.

**E. How Can Corporate Law Departments Vet Lateral Lawyers Under the Conflicts Rules?**

1. There are obviously parallels with these practices for corporate law departments. But the significant difference is, with corporate law departments, there is only one “new” client.
2. Most state rules, including Pennsylvania’s and New York’s, define “law firm” and “firm” as it applies to Rule 1.10 to include corporate law departments. *See also* Pennsylvania Rule of Professional Conduct 1.10, comment 1; New York Rule of Professional Conduct 1.10, comment 1.
3. New York’s rules add an express “written record” requirement:

New York Rule of Professional Conduct 1.10(e): “A law firm shall make a *written record of its engagements*, at or near the time of each new engagement, and *shall implement and maintain a system* by which proposed engagements are checked against current and previous engagements.”

4. New York’s “written record” requirement applies regardless of whether there is an actual conflict. *See* New York Rule of Professional Conduct 1.10(f): “Substantial failure to keep records or to implement or maintain a conflict-checking system that complies with paragraph (e) shall be a violation thereof *regardless of whether there is another violation of these rules.*” (Emphasis added.)
5. Although mandatory in New York, a “written record” may be required under the Pennsylvania rules, too. *See* Pennsylvania Rule of Professional Conduct 1.7 and comment 3 (“To determine whether a conflict of interest exists, a lawyer should adopt ‘reasonable procedures’ appropriate for the size and type of firm and practice, to determine in both litigation and non-litigation matters the persons and issues involved”).
6. What would a record-keeping requirement mean for a corporate law department? Some possibilities:
  - (a) A listing of the identities of current adverse parties in all transactional and litigation matters. Could it also include historically adverse parties?
  - (b) A listing including similar information for the entire corporate family.
  - (c) What happens when there is a corporate restructuring, merger, acquisition, or other transaction?

7. What type of conflict-checking should the corporate law department consider?
  - (a) Request information from lateral lawyer candidates and run conflicts analysis.
  - (b) If parties are added in litigation or in negotiations, does the analysis need to be re-run? Should it be re-run periodically anyway on already-employed lawyers?
8. Screening and notice. Caution: Not all jurisdictions allow for screening and notice under Rule 1.10(a)(2) to avoid imputation of a conflict to the entire new firm. Example: New York (requires consent of former client for attorneys except in special circumstances). Also beware of issues concerning corporate families of Rule of Professional Conduct 1.10.

**F. Corporate Law Department Scenarios.**

1. Lateral lawyers coming from a corporate law department: Request information from lateral lawyer sufficient to determine whether the former employer is adverse in any current matters, the nature of the lateral lawyer's involvement in the matters, and whether the lateral lawyer has any "material information" about the matters.
2. Lateral lawyers coming from a law firm: Request information from lateral lawyer sufficient to determine the nature of the lateral lawyer's involvement in any currently adverse matters and whether the lateral lawyer has "material information" relating to any currently adverse matters by reason of the lateral lawyer's involvement or the firm's representation of the adverse party.
3. Case #1 In the Context of Corporate Law Departments: The former in-house counsel of a competitor to the corporation is joining your law department.
  - (a) Vetting for conflicts under Rule 1.10.
  - (b) Should you screen and notify?
  - (c) Could a lateral lawyer's contractual non-disclosure obligations limit the disclosures necessary for your company to conduct a conflicts analysis? Example: the potential lateral candidate's employer is preparing a complaint against your company and the candidate has been involved.

- (d) Is consent for the former employer required under any circumstances?
  - (e) What if consent cannot be obtained, and the lateral resigned already?
4. Case #2: Your assistant general counsel is joining a private law firm that represents, or may in the future represent, parties adverse to your company.
- (a) If there is current adversity, has the new firm provided notice and screened?
  - (b) Request information regarding screening to ascertain the new firm's compliance
  - (c) If there is only the potential for *future* adversity, how would you know when adversity arose, and would you know soon enough?
  - (d) If the law firm requests your company's consent, should consent be provided? On what conditions, and what scope?
5. Case #3: Rather than joining a law firm, your assistant general counsel joins the law department of a company that is, or in the future may be, on the other side of commercial transactions or litigation involving your company.
- (a) May have parallels with Case #2.
  - (b) Also, concerns under Rule 1.9(c) (using information related to a former client to its disadvantage, or revealing such information except as the Rules otherwise allow).

**G. Potential Remedies for Failure to Comply With Rules.** What are the potential remedies for failure to comply with these rules?

1. Professional discipline.
2. Suits by former clients (or employers) against the lawyer for breach of the duties of confidentiality and for breach of fiduciary duty/malpractice.
3. Possible suits against the new corporate employer of the lateral lawyer for aiding and abetting breach of fiduciary duty, or tortious interference?

4. Possible disqualification of the law department from a matter? How would that play out?

**H. Insurance Coverage.** Would you be protected by insurance if you were sued in a situation like those we have discussed?

1. No insurance coverage under the former law firm's professional liability policy because policies normally only cover acts committed while employed by the law firm.
2. Coverage would depend on whether your new corporate employer has professional liability coverage or another form of coverage that would cover these violations.
3. Is the corporation covered against claims by third parties arising from mishandling of lawyer mobility issues?

**II. Risk Of Disqualification Of Corporate Law Department.**

**A. Grounds for Disqualification.** Law firms are frequently subject to motions to disqualify on conflicts grounds, and they are sometimes granted. This occurs where the conflict of one lawyer, often a lateral lawyer, is imputed on the entire law department of the organization. Typical grounds for disqualification of a law firm include:

1. Concurrent conflict of interest under Rule 1.7.
2. Conflicts with former client under Rule 1.9.

**B. Could Non-Law-Firm Law Departments and Corporate Law Departments Be Disqualified From Participation in a Matter?**

1. There appear to be no reported cases in which an entire corporate law department was disqualified from representing the company. As noted in the Restatement (Third) of the Law Governing Lawyers § 123:
  - (a) Comment d(i): "Corporate Legal Offices. No case authority [disqualifying a corporate legal office] has been found. The Comment agrees with and follows the doctrine suggested in the ABA Model Rules of Professional Conduct (1983). Rule 1.10, Comment 2." That comment notes that a "firm of lawyers is essentially one lawyer for purposes of the rules governing loyalty to the client, or from the premise that each lawyer is vicariously bound by the obligation of loyalty owed by each lawyer with whom the lawyer is [presently] associated."

- (b) Comment d(ii): “The position taken in the Section and Comment is that imputation is appropriate if either organization or physical working relationships warrant.”

**C. Disqualification of Other Types of Legal Offices or Groups.** As to other types of organizational law departments, however, especially government legal offices, imputation of conflicts has been found, and effective disqualification or its equivalent of the entire law department has occurred.

1. Government legal offices in general: *See, e.g., State v. Dean Foods Prod. Co.*, 605 F.2d 380 (8<sup>th</sup> Cir. 1979) (lawyer who moved from private law firm to state attorney general’s office had no knowledge of internal investigation into antitrust violations that was conducted while he represented company; nevertheless, entire attorney general’s office was disqualified from pressing price-fixing charges against the lawyer’s former client because of the appearance of impropriety, not imputation of knowledge).
2. Prosecutors’ offices: *Compare United States v. Caggiano*, 660 F.2d 184 (6<sup>th</sup> Cir. 1981) (defense attorney joined U.S. Attorney’s office after trial but before re-trial of matter against his client; attorney screened from re-trial of case; court did not disqualify office from prosecuting the matter because of the screen and because Assistant United States Attorney had been handling the case since inception); *with State v. Tippecanoe County Court*, 432 N.E. 2d 1377 (Ind. 1982) (office disqualified from prosecuting a habitual offender charge when elected chief prosecutor had represented defendant in related prior convictions); *and State v. Chambers*, 524 P.2d 999 (N.M. Ct. App. 1974) (entire office disqualified because of appearance of impropriety).
3. Public defenders’ offices: *See, e.g., Commonwealth v. Westbrook*, 400 A.2d 160 (Pa. 1979) (although it did not involve lawyer mobility, public defenders’ office disqualified from representing a defendant in a robbery case as well as his brother, who the defendant accused of committing the crime instead).
4. Nonprofit legal services offices: *See, e.g., Flores v. Flores*, 598 P.2d 893 (Alaska 1979) (Alaska Legal Services disqualified from representing either a husband or a wife in a child custody dispute, particularly in light of regulations and procedures that provided for adequate screening).

**D. Anticipating and Defending Against Potential Disqualification Arguments.** Typical grounds for defense of arguments for disqualification of

a lawyer or firm under Rules 1.9 (former clients) and 1.10 (imputation) include:

1. The lateral lawyer had no involvement in the relevant adverse matters.
2. The lateral lawyer was involved, but did not have access to “material information” regarding the adverse matter or the adverse party.
3. Screening and notice to former client were proper and effective.

**E. Offensive Use of Disqualification Against Opposing Counsel and Other Law Departments.** You should keep in mind that disqualification can be used as an offensive weapon by your company if one of your former lawyers winds up adverse to your company in a current or new matter.

1. Keep an eye out for where your former lawyers end up. Are they in an opposing law firm? Are they in an opposing law department?
2. Promptly inform outside counsel of potential adversity on the part of former in-house lawyers.
3. This applies to both litigation and transactional matters.
4. It may be advisable to informing the other company’s law department or its outside counsel as well.

**TOPIC 2: Rule 5.6(a) And Non-Compete Agreements For In-House Counsel**

**I. Introduction.** Rule 5.6(a) of the Model rules of Professional Conduct prohibits many restrictions on a lawyer’s post-termination practice. As it pertains to lawyers working in law firms, this has been interpreted as a bar against non-compete agreements. But many companies require all employees, including in-house counsel, to sign non-compete agreements as a condition of employment. But these agreements may also implicate the ethics rules in many jurisdictions. Are they completely barred? Are there other techniques which can be used to protect your company’s confidential information when a lawyer leaves the company?

**II. Model Rule 5.6(a).**

A lawyer shall not participate in offering or making:

- A.** partnership, shareholders, operating, employment, or other similar type of agreement that restricts the right of a lawyer to practice after termination of the relationship, except an agreement concerning benefits upon retirement.

1. This Rule, as adopted, varies slightly in Pennsylvania, New Jersey, and New York in ways that are immaterial to this discussion.
2. Simply put, Rule 5.6(a) bans the classical direct geographic and temporal restrictions on a lawyer's post-termination practice.
3. The purpose of the Rule is to ensure clients' freedom in selecting counsel of their choice to the greatest extent possible, without private commercial arrangements interfering with that goal.

**III. Application Of Rule 5.6(a) To Attorneys In Private Practice.** Three approaches to evaluating the permissibility of attorney non-compete agreements have been developed.

- A. Majority approach: a *per se* prohibition. This prohibits both *direct* and *indirect* restrictive covenants among lawyers. Direct restriction include express non-compete agreements. Indirect restrictions include financial disincentive provisions that may effectively limit a lawyer's movement. Rationale: the commercial concerns of the firm and of the departing lawyer are secondary to the need to preserve clients' choice of counsel. Restrictive covenants "interfere with and obstruct the freedom of the client in choosing and dealing with his lawyer."
- B. Minority approach: Allows reasonable financial disincentives to movement. Reasonable financial restrictions on competition by lawyers, similar to a liquidated damages clause, may be enforced without violating Rule 5.6(a). This approach essentially applies a "reasonableness" test to determine whether non-compete agreements that create financial disincentives are unethical.
  1. Adopted in Arizona and California.
  2. Example: A law firm shareholder agreement that requires a withdrawing attorney who engages in "lawyering activity in competition with the Firm and within the Firm's geographic area" to forfeit his stock in the professional corporation is enforceable because it does not restrict the lawyer's right to practice law after termination. Rather, it merely provides a lawyer who withdraws and decides to practice elsewhere with less money than others making different decisions.
- C. Common-law "reasonableness" test. This applies the common law reasonableness test that governs non-compete agreements generally in other professions.
  1. Rationale: reasonable contractual restraints are justified because the employer has legitimate interest in restraining an employee from

appropriating valuable trade information and customer relationships to which the employee had access in the course of his employment.

2. The test is similar to that stated in Restatement (Second) of Contracts, § 188: “(1) A promise to refrain from competition that imposes a restraint that is ancillary to an otherwise valid transaction or relationship is unreasonably in restraint of trade if (a) the restraint is greater than is needed to protect the promisee’s legitimate interest, or (b) the promisee’s need is outweighed by the hardship to the promisor and the likely injury to the public.
3. The circumstances of application of this test are unclear. It has not been expressly adopted in any jurisdiction.

#### **IV. Application Of Rule 5.6(a) To In-House Counsel.**

- A.** To date, only six jurisdictions have addressed whether non-compete agreements between in-house counsel and corporate employers are ethical and/or valid.
- B.** Two general approaches have emerged:
  1. Prohibition of explicit post-termination employment agreements in the in-house counsel context, similar to the outright ban against non-competes for departing lawyers in the law firm context.
    - (a) Adopted by New Jersey, Virginia, Philadelphia, and Washington D.C.
    - (b) Example: New Jersey Advisory Committee on Professional Ethics, Opinion 708: Generally, restrictive covenants regarding post-termination employment are prohibited in the in-house context just as they are in the law firm context. An agreement restricting the right of lawyers to practice after leaving a firm not only limits their professional autonomy, but also limits the freedom of clients to choose a lawyer. Relied on prior ABA Standing Committee on Ethics opinions that concluded although the predecessor to Rule 5.6 proscribed non-compete agreements only between attorneys, the underlying ethical considerations were the same.
  2. Restrictive covenants with “savings clauses” may be enforceable – covenants are to be interpreted to comply with the applicable Rules of Professional Conduct, but can otherwise bar an attorney from competition with his former employer in non-legal pursuits.

- (a) Construction: The savings clause should specifically mention Rule 5.6(a) or the related state or jurisdictional rule.
- (b) Rationale: Rule 5.6(a) only pertains to restrictions on the practice of law. Thus, the inclusion of the “savings clause,” limiting the non-compete provision to matters other than the future practice of law, alleviates any ethical concerns.
- (c) This serves a great use in connection with in-house lawyers who fulfill both legal and non-legal roles.
- (d) Adopted by Washington State and Connecticut.
- (e) Washington State: a restrictive covenant that deals specifically with a lawyer’s post-termination activities unrelated to the practice of law is enforceable where it also contains a savings clause stating that as it pertains to the practice of law, it should be interpreted consistent with the Rules of Professional Conduct.
- (f) Connecticut: a restrictive covenant is enforceable where it contains a clause stating that the non-compete agreement is only effective and binding to the extent permissible under the state equivalent of Rule 5.6(a).

**V. Alternative Means To Protect Confidential Information In The Hands Of A Departing In-House Lawyer.** Because the ethics rules may prohibit the traditional means of ensuring that a departing lawyer does not unfairly compete against his former employer, you may best rely on other means to protect your company’s interests.

**A. Ethics rules.** Although non-compete agreements may be unenforceable under Rule 5.6(a), corporations employing in-house counsel may still have their interests protected by other ethical restrictions regarding conflicts of interest and confidentiality.

1. Model Rule 1.6: Confidentiality

- (a) A lawyer shall not reveal information relating to the representation of a client unless the client gives informed consent, the disclosure is impliedly authorized in order to carry out the representation or the disclosure is permitted by paragraph (b).

2. The corporation is the in-house counsel's client. Thus, an attorney-client relationship automatically arises under the Rules of Professional Conduct.
3. Rule 1.6 specifically requires a lawyer to preserve and protect the confidences and secrets of the one who has employed him, in the interest of the proper functioning of the legal system. *See* ABA Standing Comm. on Ethics and Prof. Resp., Informal Opinion 1301 (1975).
4. Comment 3 to Rule 1.9: "Matters are 'substantially related' for purposes of this Rule if they involve the same transaction or legal dispute or if there otherwise is a substantial risk that confidential factual information as would normally have been obtained in the prior representation would materially advance the client's position in the subsequent matter."
5. "Substantially related" means identical or essentially the same, and the showing required must be patently clear. *See Applied Tech. Ltd. v. Watermaster of America, Inc.*, 2009 U.S. Dist. LEXIS 21583 (S.D.N.Y. Mar. 26, 2009) *But see Phillips v. Haidet*, 695 N.E.2d 292 (Ohio Ct. App. 1997) (stating that "substantially related" requires only a "commonality of interests").
6. An in-house lawyer may, in the course of his employment as in-house counsel, gain such sensitive information concerning matters in which the legal department represented the organization that is material to the subsequent representation, to be disqualified from a subsequent representation or prohibited from disclosing that information. *See* ABA Standing Comm. on Ethics and Prof. Resp., Formal Op. 99-415.
7. **Impact of Ethical Rules.** A departing in-house lawyer will have as a former client his former employer, and will be prohibited from doing any work substantially related to that which he did while employed by his former client.
8. **Solution to Ethical Rules Implicated.** The best, cleanest way to make sure that the ethics rules protect the corporation and the misuse of its confidential information in the hands of a departing lawyer is an exit agreement that explicitly states that the lawyer:
  - (a) Has continued ethical obligations with respect to his former employer, and agrees to abide by all Rules of Professional Conduct, including 1.6, 1.9, and 1.10.

- (b) Will not make any disclosure which may be construed as a waiver of attorney-client privilege, and any waiver requires the consent of the former client.
- (c) Has obtained certain information while working for his employer and exactly what type of information this is.
- (d) Agrees to a provision that clarifies the application of Rule 1.9 and specifically defines “substantially related” as within the context of the lawyer’s employment by his former client.

9. Confidentiality Agreements.

- (1) American Bar Association view: Rejects the use of confidentiality agreements for corporate counsel – adequate protection of confidentiality already exists under Rule 1.6; further restrictions are merely undesirable surplusage and denigrate the dignity of the profession and the attorney-client relationship. ABA Comm. on Ethics and Prof. Resp., Informal Op. 1301 (1975).
- (2) The New Jersey Advisory Committee on Professional Ethics has opined that confidentiality agreements may further protect a corporation’s interests without violating Rule 5.6(a). Recognized that the attorney-client privilege and Rule 1.6 regarding confidentiality do not extend to lawyers performing non-legal functions, and to in-house lawyers who obtain information for the purposes of legal representation.
- (3) Proposed that a corporation may reasonably request its lawyers to sign a non-disclosure or confidentiality agreement provided it does not in any way restrict the “lawyer’s ability to practice law or seek to expand the confidential nature of information obtained by the in-house lawyer in the course of performing legal functions beyond the scope” of the ethical rules. N.J. Adv. Comm. on Prof'l Ethics, Op. 708 (2006).

**TOPIC 3: Perspectives On Outside Counsel Policies**

Over the past decade, the number of companies that have implemented outside counsel policies has mushroomed. There are obvious financial and administrative reasons for clarity in the engagement of counsel. Many parts of the typical set of outside counsel

policies are workable, and often mirror the clarity that law firms attempt to achieve in their own engagement letters. Some provisions pose real and significant problems for law firms, however, and should be considered carefully because negotiating their scope can become time-consuming for both parties.

## I. Typical Contents Of Outside Counsel Policies.

- A. **Billing Matters.** Allowed rates; how to handle rate increases during the course of a matter; the mechanics of billing; electronic submission of invoices; how to describe work performed; capped rates for certain tasks; allowable and prohibited charges for certain expenses.
- B. **Staffing.** How many, and what type of, timekeepers may be assigned to a matter; how many timekeepers can bill to a specific task; diversity requirements in staffing matters; selection of the “relationship partner.”
- C. **Expectations of Outside Counsel.** Reporting significant developments, and how to do so; preparation of periodic case updates; preparation of early case assessments; preparation and updating of budget.
- D. **Supervision by In-House Counsel and Communication With Corporate Personnel.** How to handle discovery requests to the client; authority for issuing and responding to discovery; review of pleadings to be filed; securing settlement authority; communication with corporate personnel.
- E. **Settlement Process and Authority.**
- F. **Information Technology Matters.** File retention; permissible use of e-mail and cell phones; technical compatibility and minimum security requirements for software used by law firm.
- G. **Miscellaneous.** Malpractice insurance required; prohibition on gifts; outside counsel policy compliance audits; use of client’s name; responding to media inquiries; business associate agreements.
- H. **Conflicts (of course).** See below.

## II. Are Outside Counsel Policies Necessary?

- A. **Model Rule of Professional Conduct 1.5.** Rule 1.5, as adopted in various jurisdictions, already generally requires that law firms utilize written engagement letters and memorialize a fee agreement. In practice, these letters typically are broader, and encompass many of the same topics outside counsel policies attempt to regulate as well, including the definition of the “client”, advance consent to conflicts, document retention policies, use of cell phones and e-mail, and other matters. There is, of course, a needed role for outside

counsel policies in defining the client's expectations, and to supplement what the rules of ethics and law firm engagement letters do not already provide for.

- B. “Battle of the Forms.”** This usually leads to some element of tension between a law firm's standard engagement letter and a client's outside counsel policies, which need to be harmonized. Sometimes the provisions of the two directly conflict and are irreconcilable; sometimes the provisions of the two can be massaged or reconciled with some negotiation or merely some linguistic adaptation. There is often a need for reasonable accommodation and adjustment. Both the corporate client and the law firm generally have legitimate business interests that can be implicated by standard provisions. The law firm desires to be retained, but at some point the interest in new business may be rationally outweighed by the potential burdens of the client's outside counsel policy, or the impact of the outside counsel policy on the growth of the law firm's broader business.
- C. Conflicts.** The most time-consuming and potentially significant part of reviewing a proposed set of outside counsel policies relates to conflicts. Should your outside counsel policies even contain a conflicts section at all?
1. In most cases, it would appear to be sufficient to simply rely on the evolving conflicts rules and ethics opinions that are in place. There is no need to recite a general set of conflicts principles if these generally mirror the Model Rules, or the Rules in force in a given jurisdiction. A responsible law firm is set up internally to comply with those Rules in the appropriate manner.
  2. On the other hand, since the 1990s there have been a number of developments concerning ethics issues relating to organizational representations that corporations may not believe sufficiently protect their interests, and may want to impose by contract those protections that the ethics rules and ethics opinions do not provide.
  3. One of the most typical clauses in outside counsel policies seeks to define the “client” as not just the specific entity the attorney will represent, but subsidiaries, parents, and affiliate entities – the entire “corporate family.” This type of language has the effect of greatly broadening the representation at issue, and – often unexpectedly – creating a host of conflicts for the law firm unrelated to the actual matter for which it has been retained. This is one of the principal provisions which law firms typically consider carefully in outside counsel policies. Because they can involve serious limitations on the scope of a firm's practice, accepting such a provision often requires the approval of the firm's senior management.

4. A more problematic issue is the attempt to prevent the law firm from representing any “competitor” of the client. This is difficult to apply in practice, because the law firm is not always in a good position to evaluate and identify entities that a client may regard as a “competitor,” particularly in the case of large corporate clients involved in disparate lines of business, and where the law firm’s assignments are isolated or sporadic. As the client’s business progresses, these unidentified “competitors” may also change over time, without any knowledge on the law firm’s part. Furthermore, attempting to prevent the law firm from representing another entity in the absence of an actual conflict violates (at least in spirit) the principle that a client should be able to freely choose its own counsel, manifest in rules such as Rule 5.6. A wrinkle on this are outside counsel policies that require, at the beginning of an engagement, the law firm to disclose to the client the work it *already does* for competitors, both the identity of the competitor and the type of services performed. This implicates the confidentiality provisions of Rule 1.6 and will usually be impermissible.
  - (a) If a competitor restriction is contemplated, providing a list of competitors will be advisable, updated at least every six months. Not only does this provide more guidance to the law firm as to your expectations, but it may also render such a provision more enforceable if disqualification is ever sought.
5. Similarly limiting is the attempt to foreclose the law firm from taking any position in another matter, on behalf of another client, that conflicts with the arguments or positions the corporate client is taking in the instant matter, or even in another case in which the law firm is not engaged – the so-called “positional” conflict. Model Rule 1.7 already addresses this problem, and provides that a lawyer shall not represent a client if “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” unless certain conditions, including informed consent by each affected client, is given. This is more limited than a blanket prohibition on taking opposing positions on any and all issues. Furthermore, various ethics interpretations have interpreted Rule 1.7 as allowing counsel to take opposing positions in different trial courts for different clients, for example, but not necessarily in front of the same appellate court. Keep in mind that, especially at larger firms, it will be very difficult for attorneys to be aware of every position taken by other attorneys in other matters, rendering a ban on positional conflicts on *all* issues very difficult in practice.

6. To save time, some outside counsel policies grant advance consents for certain types of matters, and otherwise spell out how future requests for consents will be handled by the client, including the name and contact information of the person to contact for consents in connection with various types of matters. Provisions of this type inure to the benefit of both the corporate client and outside counsel – the law firm knows exactly when it should expect consents to be given, and the client can avoid having to address numerous and repetitive requests for consents on whole categories of routine matters.

**D. Should You Expect Your Outside Counsel Policies to Be Accepted?**

Especially when dealing with larger law firms, you should not expect your outside counsel policies to be automatically accepted. Conscientious law firms will usually want to discuss the practical implications of the policies, and may want to negotiate modifications thereto. Especially problematic will be the scope of the outside counsel policy in connection with a matter that will generate relatively modest fees for the firm – it is unlikely that they will want to create conflicts, for example, in exchange for minimal business. The most problematic provision will often be the attempt to broaden the definition of what constitutes the “client.” This suggests two approaches to outside counsel policies:

1. Make your outside counsel policy very aggressive, with the expectation that significant negotiation is going to occur in connection with each new engagement of a law firm.
2. Exclude from your outside counsel policy the types of provisions that cause the greatest tension with law firms’ legitimate business concerns, and thus minimize the time devoted to negotiations over the scope and content of the outside counsel policy.