



The Ethics of Lawyer-Client Fallout

Recent Cases Addressing Rule 1.6 Confidentiality Issues:

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RECENT CASES ADDRESSING RULE 1.6 CONFIDENTIALITY ISSUES

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ABA Model Rule 1.6 – Client-Lawyer Relationship – Confidentiality of Information

Model Rule 1.6 provides that:

(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).

(b) A lawyer may reveal information relating to the representation of a client to the extent the lawyer reasonably believes necessary:

(1) to prevent reasonably certain death or substantial bodily harm;

(2) to prevent the client from committing a crime or fraud that is reasonably certain to result in substantial injury to the financial interests or property of another and in furtherance of which the client has used or is using the lawyer's services;

(3) to prevent, mitigate or rectify substantial injury to the financial interests or property of another that is reasonably certain to result or has resulted from the client's commission of a crime or fraud in furtherance of which the client has used the lawyer's services;

(4) to secure legal advice about the lawyer's compliance with these Rules;

(5) to establish a claim or defense on behalf of the lawyer in a controversy between the lawyer and the client, to establish a defense to a criminal charge or civil claim against the lawyer based upon conduct in which the client was involved, or to respond to allegations in any proceeding concerning the lawyer's representation of the client;

(6) to comply with other law or a court order; or

(7) to detect and resolve conflicts of interest arising from the lawyer's change of employment or from changes in the composition or ownership of a firm, but only if the revealed information would not compromise the attorney-client privilege or otherwise prejudice the client.

(c) A lawyer shall make reasonable efforts to prevent the inadvertent or unauthorized disclosure of, or unauthorized access to, information relating to the representation of a client.

Various state courts and/or disciplinary authorities have addressed confidentiality issues raised by ABA Model Rule 1.6 or its state equivalent. Several states have adopted the Model

Rules, in whole or in part; however, the scope of an attorneys' duty of confidentiality varies widely across jurisdictions.

This paper highlights several recent cases addressing attorney-client communications and an attorney's right to use, or to compel the use of, attorney-client privileged communications to establish or defend against claims.

RECENT CASES ADDRESSING RULE 1.6 ISSUES

***Allen v. Lemaster*, 267 P.3d 806 (N.M. 2011)**

A Petitioner, who was a prison inmate, brought a challenge to the dismissal of his petition for a writ of *habeas corpus* that alleged ineffective assistance of counsel in connection with his death sentence.

The Court held that under the New Mexico Rules, N.M. Rule Ann. 11-503(D)(3), communications relevant to an inmate's claims of ineffective assistance of counsel are excepted from the attorney-client privilege. In determining whether an exception applies, the district court first determines the relevance of the communication. Then, if an exception to the attorney-client privilege applies, there is no privilege to waive. If there is no privilege, then no waiver analysis is required. New Mexico's evidentiary privileges are all by Rule, including the attorney-client privilege. New Mexico Courts do not recognize any common-law principles that are inconsistent with its Rules.

The New Mexico Rules hold that there is no privilege as to a communication relevant to an issue of breach of duty by the lawyer to the lawyer's client. By claiming ineffective assistance of counsel, a *habeas* petitioner alleges a breach of duty on the part of his counsel. Because there would be no privilege for communications relevant to a breach of duty, there is no privilege that needs to be analyzed for waiver. The Court explained that New Mexico cases had not previously addressed the issue of an exception, as contrasted with a waiver. The Court noted that many of the previous cases used the word "waived," even when there was no waiver involved. This case clarified that an "exception" to the attorney-client privilege is "analytically distinguishable" from a waiver of that privilege.

Thus, in New Mexico, where ineffective assistance of counsel is alleged, the breach of duty exception applies and there is no privilege. Accordingly, there is no need to consider whether there is a waiver of an existing privilege.

***In Re: Dyer*, 817 N.W.2d 351 (N.D. 2012)**

In this North Dakota disciplinary proceeding, the Court found that attorneys were not prohibited from disclosing information regarding trust accounts to the inquiry committee and the hearing committee. The Court further found that the failure to disclose the information violated the North Dakota Rules of Professional Conduct.

The Court held that, in North Dakota, Rule 1.6 allows a lawyer to disclose information related to the representation of a client in any proceeding concerning the lawyer's representation of the client, including proceedings where the controversy is not between the attorney and his or her client. Thus, the self-defense exception is not restricted to proceedings initiated by the client and allows disclosure to defend claims brought by third parties, as well as clients, which may arise in civil, criminal, disciplinary or other proceedings. Under Rule 1.6, a lawyer may even reveal information related to the representation of a client when an opposing party files a complaint with the bar.

The Court noted, however, that disclosure is only permitted to the extent that the lawyer reasonably believes the disclosure is necessary. The Court further noted that the lawyer should, if possible, seek to persuade the client to take action to obviate the need for disclosure. However, in any case, a disclosure adverse to a client's interest should be no greater than the lawyer reasonably believes necessary to accomplish the purpose. The Court indicated that it allows for the use of equitable measures to permit an attorney to make his case, while protecting confidential information from disclosure, including the use of sealing and protective orders, limited admissibility of evidence, orders restricting the use of testimony in successive proceedings and *in camera* proceedings, where appropriate.

While it is not a violation of Rule 1.6 to decline to make permitted disclosures, the Court noted that disclosure may, nonetheless, be required under other disciplinary rules. If disclosure is required, then the lawyer does not have any discretion in deciding whether or not to disclose the information. The lawyer can, however, pursue other remedies, including making objections, negotiating the scope of disclosures and appeal, to address any issues regarding the disclosure.

***Feinstein v. Rizza*, 2012 Conn. Super. Lexis 1444 (CT Sup. Ct., June 6, 2012)**

In this Connecticut litigation, Plaintiffs filed suit against Defendant, who had represented Plaintiffs in the purchase of property, for legal malpractice and breach of contract. Plaintiffs provided a waiver allowing for the attorney's testimony in the litigation, but Defendant sought a protective order to prevent her deposition in the matter pending with Plaintiffs, as well as other related litigation, stating that there were remaining confidentiality issues.

The Connecticut Court analyzed two aspects of the attorney-client relationship – (1) the possible disclosure of attorney-client communications; and, (2) the client's right to privacy as to the matters for which he or she sought legal representation. Connecticut recognizes the principles of implied and express waivers. In discussing the implied or "at issue" waiver, the Court recognized that the party waives the right to confidentiality by placing the content of the advice at issue. Moreover, in evaluating the common law creation and waiver of the attorney-client privilege, the Court found that the written waiver given by the Plaintiffs satisfied the "informed consent" prong of Rule 1.6, thereby allowing the attorney to disclose confidential information regarding the attorney's legal representation of the client. In its ruling, the Court expressly cited to the provisions of Rule 1.6, which allow a lawyer to reveal information relating to the representation to the extent the lawyer reasonably believes necessary to establish a claim or defense on behalf of a lawyer in a controversy between the client and lawyer. The Court further noted that Rule 1.6 allows the lawyer to respond to allegations in any proceeding

concerning the lawyer's representation of the client. The Court noted that the protections of Rule 1.6 do not apply in a suit by former clients against their former attorney. Where the attorney's conduct is placed at issue, Rule 1.6 allows the Defendant to reveal confidential information. Further, the attorney here was not subject to sanction for failing to submit to deposition prior to the Court's order because "[Defendant] had legitimate concerns about her professional responsibilities . . . and it was not inappropriate for her to seek judicial guidance before answering questions under oath about the matter in which she represented [the Plaintiffs]."

In another case arising out of this same dispute, the Connecticut Court held that the waiver of the attorney-client privilege that was provided by the Plaintiffs in their malpractice litigation would extend to allow Defendant to give testimony in the related litigation. Notably, Connecticut does not recognize selective waiver.

***Helie v. McDermott, Will & Emery*, 56 A.D.3d 398, 869 N.Y.S.2d 27 (1st Dept. 2008)**

The question presented in this appeal was whether or not an attorney could testify at a deposition and be ordered to provide documents concerning certain topics, even if the attorney's responses revealed information or communications that a non-party appellant claimed were privileged and/or confidential. In this matter, a former member of a LLC sued the LLC's outside law firm for legal malpractice, and the outside law firm moved to permit one of its attorneys to testify, over the LLC's assertion of the attorney-client privilege.

The Court ordered that the testimony was allowed under DR 4-101(c) (the former confidentiality rule in New York). The Court declined to make the invocation of the self-defense exception to the duty of confidentiality dependent on the Plaintiff's *prima facie* demonstration of Defendants' liability. The Court noted that it was disputed whether or not the Plaintiff was a client of the law firm but, even if the Plaintiff was not Defendants' client, the New York rule did not require that the non-client's allegation of wrongful conduct involve criminal or regulatory charges, rather than malpractice, in order to allow the attorney to invoke the self-defense exception.

***Hicks v. U.S.*, 2010 US Dist Lexis 137268 (S.D.W.Va. Dec. 28, 2010)**

In this West Virginia federal case, the Movant filed a motion seeking relief on the grounds of ineffective assistance of counsel. In response, the United States filed a motion for an order directing Movant's former counsel to provide information to the United States concerning the claims made by the Movant. The former counsel did not respond to the motion. The appellate attorney responded and contended that disclosure would not be warranted and would be unnecessary if the Movant was not prejudiced by the alleged error; therefore the Court must first find that the Movant was prejudiced by an alleged error before it requires disclosure. The Movant did not raise the issue of ineffective assistance of counsel to his appellate counsel.

The United States responded by stating that ABA Opinion 10-456, addressing ineffective assistance of counsel claims, was not binding and that the plain language of Rule 1.6 did not require the Court to supervise disclosures made by lawyers who are defending accusations of misconduct asserted by their former clients. Relying on Rule 1.6, the United States argued that,

once a client makes allegations against an attorney, the lawyer may exercise his/her discretion as to whether to disclose such information as may be reasonably necessary to defend against the allegations. The United States further argued that, once a claim of ineffective assistance is raised, then the Court should find that the Defendant impliedly waived his attorney-client privilege.

The Court, construing Fourth Circuit law, stated that the Fourth Circuit appears to endorse a narrowly construed implied waiver rule. In an earlier conflict of interest case, the Fourth Circuit had held that a prisoner in a *habeas corpus* case was entitled to a protective order prohibiting the government from using privileged information revealed by his lawyer in litigating the conflict of interest claims that underlay the habeas petition. (*U.S. v. Nicholson*, 611 F.3d 191 (4th Cir. 2010)). Relying, in part, on *Nicholson* and on Rule 1.6, the United States District Court in West Virginia held that the District Court needed to supervise the government's requests for disclosure of privileged communications between Defendant and his former attorney in order to assure that any waiver was applied narrowly and only for the purpose of litigating the *habeas corpus* claim.

***Lue v. Finkelstein & Partners, LLP*, 67 A.D.3d 1187, 888 N.Y.S.2d 290 (3d Dept 2009)**

In this New York State litigation, Plaintiff was injured while working for his employer at a warehouse owned by K-Mart Corporation. Plaintiff retained Defendant law firm to represent him in a personal injury action. He alleged that the law firm failed to properly preserve his personal injury claim against K-Mart during the company's Chapter 11 bankruptcy proceeding. Plaintiff's subsequent counsel then filed claims against K-Mart that were dismissed because the claim was not preserved in the bankruptcy proceeding. Thereafter, Plaintiff sued Finkelstein & Partners. He asserted that his settlement was inadequate because he could not pursue claims against K-Mart. During Plaintiff's deposition, Defendants sought to question Plaintiff about his discussions with successor counsel regarding the settlement of claims that were brought against other potentially negligent parties. Plaintiff asserted the attorney-client privilege as to those communications. The Court held that Plaintiff did not waive the attorney-client privilege and denied the discovery regarding the settlement discussions.

On appeal, the New York Appellate Division, Third Department, held that Plaintiff could assert the attorney-client privilege as to communications with his successor counsel. The Court, relying in part on a Second Department case (*Raphael v. Cluen, White & Nelson*, 146 A.D.2d 762 (2d Dept 1989)), held that by commencing suit against his former attorneys, the Plaintiff does not place at issue privileged communications with the attorney who represented the Plaintiff in the settlement, even in a case where the disputed issue involved allegations that a settlement made by successor counsel was inadequate because of the prior attorneys' malpractice.

***Reilly v. Greenwald & Hoffman, LLP*, 196 Cal. App. 4th 891 (Cal. App. 4th 2011)**

In this California appellate matter, Plaintiff, a minority shareholder, appealed a judgment, which sustained Defendant's demurrer¹ to the shareholder's derivative complaint against the law firm for negligent and tortious conduct in facilitating a majority shareholder's conversion of corporate funds. Defendant was outside counsel to the dissolved corporation.

The suit was brought after the corporation was dissolved. However, pursuant to Cal. Corp. Code § 2010, the corporation continued to exist while it was winding up its affairs and therefore, could continue to assert the attorney-client privilege during the litigation. Plaintiff sought to file claims against counsel, but the Court ruled that the claims were barred because the corporation, through its majority shareholder, had not waived the attorney-client privilege as to communications between the majority shareholder and its counsel. Moreover, under California Evidence Code § 955, counsel was obligated to assert the privilege, even if the corporation did not instruct it to do so. A derivative action does not result in the corporation's waiver of the privilege. California does not recognize a shareholder exception to the attorney-client privilege, even in a derivative action.

Because there was no waiver, the firm could not adequately defend against the claims. The trial court held that the action could not proceed because it would be a violation of the firm's due process rights to proceed if counsel could not present a defense. The defense would have included disclosures of confidential and privileged communications. California recognizes that dismissal is proper in cases where the Plaintiff has brought claims that necessitate that the Defendant disclose privileged or confidential information in order to present a meaningful defense.

The Court held that, absent a realistic possibility of a waiver or the application of an exception to the privilege, it was appropriate to enforce the demurrer, without leave to amend. The judgment was affirmed on appeal.

***S&I Investments and Richmond v. Payless Flea Market, Inc.*, 10 So. 3d 699 (Fla. App. 2009)**

In this Florida matter, the question presented addressed the scope of a waiver. Specifically, the Court sought to determine whether a client waives the attorney-client privilege when she is deposed by her former attorney. The Court held that, under the circumstances presented in this matter, the attorney-client privilege was waived. The Court further evaluated whether that waiver extends to allow disclosure of the earlier deposition to a third party, in yet another litigation. The Court determined that the waiver extends to the third-party's litigation.

Payless sued S&I and its general partner, Richmond, seeking damages for a number of torts. The lawsuit stemmed from earlier litigation that resulted in a judgment in favor of Payless. In the earlier litigation, counsel for Richmond had sued her for unpaid legal fees. In the underlying fee litigation, Richmond was deposed. No claims of privilege were made during the

¹ Under California law, a demurrer is treated as an admission of the material facts that are properly pleaded, but not contentions, deductions or conclusions of fact or law. A demurrer cannot be sustained if the Plaintiff has stated a cause of action under any possible legal theory.

deposition. Thereafter, in the later litigation, Payless sought a copy of the deposition transcript and its exhibits. There, Richmond filed a motion for a protective order asserting attorney-client privilege. The trial court ruled that the privilege was waived. The Court further noted that, if there were any questions to which the attorney-client privilege was specially asserted in the deposition, those answers should be redacted.

Under Florida's Evidentiary Code, communications do not retain their confidentiality where a breach of duty between the lawyer and client occurs or where the client waives the privilege. A deposition in a suit between a former lawyer and his client does not meet the definition of a confidential communication. The Court stated that a lawyer-client relationship does not exist when the lawyer is suing his client and the client is represented by other counsel. Therefore, at the time of the communications contained in the deposition, there was no attorney-client privilege. The Court also held that, where the lawyer has sued the client for breach of duty, and the client has alleged the lawyer's negligence as an affirmative defense, there is no lawyer-client privilege as to communications relevant to the breach of duty.

In the deposition at issue, the client did not assert the existence of a privilege and voluntarily testified. Therefore, she waived the privilege, which waived the privilege as to all proceedings.

***Squire Sanders & Dempsey, LLP v. Givaudan Flavors Corp.*, 127 Ohio St. 3d 161, 937 N.E.2d 533 (2010)**

This Ohio action was brought by a law firm against a former client for breach of contract and money due on an account. The former client asserted counter-claims for breach of contract and malpractice.

Squire Sanders was initially retained to represent the company in litigation related to alleged injuries suffered by employees after inhaling the butter flavoring produced for use on popcorn. Thereafter, Squire Sanders was replaced after Defendant hired a new general counsel. The new general counsel refused to pay invoices for legal services and terminated the firm in May 2007. A suit was instituted for fees. In discovery during that fee suit, the former client refused to produce documents and objected to depositions on the grounds of attorney-client privilege and the work product doctrine.

The Court held that the self-protection exception to the attorney-client privilege applied to allow the law firm to discover documents and testimony from the former client's current and former general counsel regarding the representation. The Court stated that a client may not rely on attorney-client communications to establish a claim against an attorney, while asserting the same privilege to prevent the attorney from defending itself against the claim. The privilege exists to aid in the administration of justice and must yield when justice requires.

The Court noted that the determination that the requested discovery was permissible comported with Ohio Prof. Cond. R. 1.6 and Ohio law. Ohio recognizes the common-law self-protection exception to the attorney-client privilege. Ohio permits an attorney to testify concerning attorney-client communications, where necessary, to establish a claim for legal fees

on behalf of the attorney or to defend against a charge of malpractice or other wrongdoing in litigation between the attorney and the client.

***Waite, Schneider, Bayless & Chesley Co., LPA v. Davis*, 2012 U.S. Dist. Lexis 117634 (S.D. Ohio, Aug. 21, 2012)**

In this Ohio federal litigation, Defendant Davis filed a motion for a protective order to prevent the law firm's use of attorney-client privileged documents in litigation against him. The firm filed a collection case against Davis seeking legal fees. Davis counterclaimed, asserting claims against the law firm including malpractice and breach of fiduciary duty.

Davis sought to designate documents relating to the underlying litigation as "attorneys' eyes only," alleging that the documents were subject to a confidentiality order. Davis alleged that Chesley, one of the Defendants, breached the confidentiality order by including certain allegations in the fee complaint against Davis. A second issue concerned the firm's position that any documents Davis provided to the firm should not be designated confidential. Davis contended that, when he was a client of the firm, he had provided the law firm with copies of his tax returns, as well as financial and business documents that contained client confidences that should be protected under the Ohio Rules of Professional Conduct.

The law firm questioned Davis' motivations regarding confidentiality, in light of the allegations in the counterclaims he filed against them. The law firm alleged that it needed documents that were "critically necessary" to its defense against the counterclaim. The law firm further argued that, because Davis put its representation at issue, it should be able to reveal any of his client information necessary for its defense.

The Court ruled against the law firm, asserting that the firm had not addressed how the information was crucial to its defense, but also found that an "attorneys' eyes designation" outweighed the firm's interests. Simply put, the Court was not convinced that the law firm would be compromised in its defense of the counterclaim if only its counsel was able to view certain case documents that were designated as attorneys' eyes only. Moreover, the Court found that the law firm had not identified any prejudice that it would suffer if Davis was permitted to designate his documents already in the firm's possession, as confidential. Under Ohio law, Rule 1.6 did not entitle the firm to exclude documents that were already in its possession from a protective order.

***Weiss v. Lonnquist*, 2013 Wash. App. Lexis 255 (Wash. App., Feb. 4, 2013)**

In this recent Washington State appeal, Weiss alleged that she was wrongfully discharged after uncovering potential perjury on the part of a client and her law firm employer in representing the client. Plaintiff sued for wrongful discharge, but did not report the allegedly unethical conduct of her former employer to the Bar. After a jury trial, Plaintiff was awarded damages and attorneys' fees for wrongful discharge and wage claims. On appeal, the Court reversed and held that the disciplinary system was an adequate safeguard for the public for disciplining an attorney who violated the rules of professional conduct. Accordingly, the tort of wrongful discharge in violation of public policy was not available to the Plaintiff.

Plaintiff was a part-time “of counsel” attorney. She uncovered what she believed to be perjury in an employment case assigned to her by her employer and believed that her employer had fostered the perjury by filing the complaint and defending the client’s deposition. Plaintiff informed her employer that she would not work on the case because of the ethical issue. Several weeks later, Plaintiff received notice of termination. Plaintiff stated that she considered filing a bar complaint but believed that the bar process was inadequate because it would not address her wrongful termination.

The question presented on appeal was whether the disciplinary process of the state bar was an adequate means of promoting the public policy of requiring attorneys to be candid with the Court.

The Appellate Court found that, under Washington law, the Plaintiff could use the exceptions to Rule 1.6 to reveal information relating to the representation of the client, because of the potential perjury involved. The Court specifically found that the Plaintiff should have informed the bar about her employer’s alleged suborning of the client’s perjury. According to the Court, had a report been made to the Bar, the accused attorney would have been permitted to respond to the Bar using her client’s confidential information, to the extent necessary to establish her defense. Relying on earlier case precedent, the Court noted that revealing the misconduct to the Bar would not have violated Rule 1.6. The Court specifically noted that a civil suit cannot be the only adequate means to vindicate the Rules of Professional Conduct when the Bar itself has a process in place to address the enforcement of those Rules. The judgment in favor of Plaintiff was reversed and remanded for further proceedings.

Conclusion

As these recent cases illustrate, a state specific analysis is required when an attorney is seeking to determine the scope of the permissible disclosure of attorney-client privileged information. ABA Model Rule 1.6 has not been adopted in every state and, as a result, an attorney is cautioned to carefully review applicable state and/or federal case authorities in determining what information, if any, may be disclosed in the event of litigation with a client, a third-party or in response to an inquiry from a disciplinary authority.

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Lawyer-Client Fallout: Using Privileged Information to Establish a Claim or Defense Against a Client/Employer

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INTRODUCTION

The attorney-client privilege is a cornerstone of the American legal system. As long as there has not been a waiver, third parties are not entitled to obtain privileged documents in discovery or in response to regulatory agency information requests. But what if the third party is a former in-house counsel or outside counsel for a client in a dispute with the former client? And privileged information must be used by the former in-house counsel or outside counsel to establish a claim or a defense? In the case of outside counsel, such disputes historically have involved a fee dispute or claims of malpractice, and ethics rules permit the lawyer to use privileged information to pursue a claim for fees or defend against a malpractice accusation.¹ Considerable jurisprudence also addresses these topics, and they are not the focus of this paper.

There are other ways in which a client and a lawyer may have a falling out, however. A client may take on responsibility for production of documents in litigation. If the client fails to produce responsive documents, and a sanctions proceeding results to determine whether the client or the client's litigation counsel is at fault, may counsel use privileged information to defend their conduct? Or if a lawyer is named in a securities lawsuit because of the alleged inaccuracy of disclosures in regulatory filings, may the lawyer use client confidential information to defend against the accusations or even to demonstrate blamelessness? Or suppose that an in-house counsel is terminated and the in-house counsel believes he or she can show that the termination was wrongful or that a retaliatory discharge under a whistleblower statute has occurred. May such a claim be pursued? May privileged information be used to establish the claim? If so, must a court take any measures to minimize disclosure of privileged information? These questions are the focus of this analysis.

As will be shown below, lawyers generally are not excluded from the protection of common law, wrongful discharge causes of action, or whistleblower statutes. Nor are they prohibited from using confidential information to seek legal advice or, generally, to advance claims subject to employment of appropriate

¹ Comment [11] to Model Rule 1.6 of the ABA Model Rules of Professional Conduct provides: "A lawyer entitled to a fee is permitted by [Model Rule 1.6(b)(5)] to prove the services rendered in an action to collect it. This aspect of the rule expresses the principle that the beneficiary of a fiduciary relationship may not exploit it to the detriment of the fiduciary." Comment [10] makes the point that a lawyer accused of misconduct by a client or a third party in a civil, criminal, disciplinary or other proceeding has the right to respond to the extent reasonably necessary to establish a defense. Model Rule 1.6(b)(5) is discussed below.

measures to minimize disclosure. And lawyers may use confidential information to defend themselves against accusations of wrongful conduct by a client or third parties because of work associated with representation of a client. Retention of confidential information by in-house counsel after termination of a relationship is sometimes an issue in the case law. If a lawyer engages in “egregious self-help”—knowing that the termination is going to occur, making copies of documents and taking them off the employer’s premises to use to advance a claim of employment discrimination—the lawyer may be required to return the documents. On the other hand, lawyers who at the time of termination already had copies of privileged documents that supported a wrongful discharge or whistleblowing claim may be allowed to retain and use them with appropriate protective measures on indiscriminant disclosure. As the case law has evolved, it has focused more on the merits of the lawyer’s claim and whether information is, in fact, privileged, especially if a crime or fraud exception may strip information of privileged status.² Federal courts follow federal common law in the privilege analysis, not state privilege law and so where choice of forum is available, that distinction has been significant in the jurisprudence. And the ethics rules in existence in a state at the time a court decision is rendered have to be considered since the ethics rules on disclosure rights of lawyers have been expanded under the Model Rules of Professional Conduct, the beginning point of this analysis.

MODEL RULES OF PROFESSIONAL CONDUCT

The Model Rules of Professional Conduct require a lawyer to protect the confidentiality of information “relating to the representation of a client.” Model Rule 1.6(a). There are three exceptions to this prohibition in Model Rule 1.6(a). Disclosure is permitted if the client gives “informed consent,”³ if the disclosure is “impliedly authorized in order to carry out the representation,” or if the disclosure “is permitted by paragraph (b).” *Id.*

For purposes of this analysis, Model Rule 1.6(b) then provides that a lawyer “may reveal” information relating to the representation of a client “to the extent the lawyer reasonably believes necessary”

(4) to secure legal advice about the lawyer’s compliance with these Rules;

(5) to establish a claim or defense on behalf of the lawyer in a controversy between the lawyer and the client,...or to respond to allegations in any proceeding concerning the lawyer’s representation of the client....⁴

² It is hornbook law that there is no attorney client privilege where the services of the lawyer were sought or obtained to enable or aid anyone to commit or plan to commit what the client knew or reasonably should have known to be a crime or fraud. See, e.g., *Micron Technology, Inc. v. Rambus, Inc.*, 645 F.3d 1311, 1329-30 (Fed. Cir. 2011).

³ Model Rule 1.0 provides: “‘Informed consent’ denotes the agreement by a person to a proposed course of conduct after the lawyer has communicated adequate information and explanation about the material risks of and reasonably available alternatives to the proposed course of conduct.”

⁴ Model Rule 1.6(b)’s duty of confidentiality continues after a lawyer-client relationship has ended. Model Rule 1.9(c) provides that “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 (2) reveal information relating to the representation except as these Rules would permit or require with respect to a client.”

Model Rule 1.6(b)(5) requires a “controversy” or a “proceeding.” The former word is not defined in the Model Rules. A “controversy” is, however, broader than a “proceeding.” One presumably can “establish a claim or defense” in a letter or an email as opposed to a complaint or an answer if the “controversy” has not yet matured into a civil action.

Model Rule 1.6(b)(4) allows a lawyer to retain counsel and to show counsel privileged information to be sure that the lawyer is complying with the rules of professional conduct, which of course includes Model Rule 1.6(b)(5).

Most states have adopted the text of Model Rule 1.6(b)(4) and (5). There are some exceptions.⁵ I illustrate notable ones here. New York’s Rule of Professional Conduct (RPC) 1.6(b) allows a lawyer to reveal “confidential information”⁶ to the extent that the lawyer reasonably believes necessary “(5)(i) to defend the lawyer or the lawyer’s employees and associates against an accusation of wrongful conduct,” or “(ii) to establish or collect a fee.”⁷ New York’s RPC 1.6(b)(4) adds to Model Rule 1.6(b)(4) by allowing a lawyer to secure legal advice about compliance not only with the RPC but also with “other law.” New York’s RPC does not make reference to “establishing a claim.”

Michigan’s equivalent to Model Rule 1.6(b)(5) is similar to New York’s except that it modifies the phrase “to the extent that the lawyer reasonably believes necessary.” Michigan’s RPC 1.6(c)(5) provides that a lawyer may reveal “(5) confidences or secrets necessary to establish or collect a fee, or to defend the lawyer or the lawyer’s employees or associates against an accusation of wrongful conduct.”⁸ Michigan does not contain a subparagraph comparable to Model Rule 1.6(b)(4).

The District of Columbia’s RPC 1.6(e) also allows a lawyer to use confidential information defensively. D.C. RPC 1.6(e) provides that a lawyer may use or reveal “client confidences” “(3) to the extent reasonably necessary to establish a defense to a criminal charge, disciplinary charge, or civil claim, formally instituted against the lawyer, based upon conduct in which the client was involved, or to the extent reasonably necessary to respond to specific allegations by the client concerning the lawyer’s representation of the client”; “(5) to the minimum extent necessary in an action instituted by the lawyer to establish or collect the lawyer’s fee; or (6) to the extent reasonably necessary to secure legal advice about the lawyer’s compliance with law, including these Rules.”⁹

⁵ As will be shown in the text, the exceptions appear to relate primarily to the continued use of text from the Model Code of Professional Responsibility. DR 4-101(C)(4) provided that a lawyer may reveal “confidences...necessary to establish or collect a fee or to defend himself or his employees or associates against an accusation of wrongful conduct.” <http://www.americanbar.org/content/dam/aba/migrated/cpr/mrpc/mcpr.authcheckdam.pdf>.

⁶ New York defines confidential information in NY RPC 1.6(a): “‘Confidential information’ consists of information gained during or relating to the representation of a client, whatever its source, that is (a) protected by the attorney-client privilege, (b) likely to be embarrassing or detrimental to the client if disclosed, or (c) information that the client has requested be kept confidential. “Confidential information” does not ordinarily include (i) a lawyer’s legal knowledge or legal research or (ii) information that is generally known in the local community or in the trade, field or profession to which the information relates.”

⁷ <http://www.nysba.org/Content/NavigationMenu/ForAttorneys/ProfessionalStandardsforAttorneys/NYRulesofProfessionalConduct4109.pdf>.

⁸ <http://courts.mi.gov/Courts/MichiganSupremeCourt/CurrentCourtRules/5MichiganRulesOfProfessionalConduct.pdf>. Michigan defines “confidence” as referring to information protected by the client-lawyer privilege under applicable law. Michigan RPC 1.6(a).

⁹ http://www.americanbar.org/groups/professional_responsibility/publications/model_rules_of_professional_conduct/rule_1_6_confidentiality_of_information.html.

Connecticut's RPC 1.6(d) eliminates the phrase "to the extent necessary" from the Model Rule formulation. It provides in pertinent part that a lawyer may reveal information relating to the representation of a client to establish a claim or defense on behalf of the lawyer in a controversy between the lawyer and the client, or to respond to allegations in any proceeding concerning the lawyer's representation of the client.¹⁰ Connecticut's RPC 1.6(3) is the same as Model Rule 1.6(b)(4).

California does not follow the Model Rules and its rules of professional conduct do not permit disclosure of confidential information of a client except in limited circumstances that do not include the circumstances set forth in Model Rule 1.6(b)(4) or (5).¹¹ The absence of such a right played itself out in major patent litigation in federal court in California in 2008.

QUALCOMM V. BROADCOM: COMMON LAW RIGHT TO USE ATTORNEY-CLIENT INFORMATION TO DEFEND AGAINST SANCTIONS FOR FAILURE TO PRODUCE DOCUMENTS

In *Qualcomm Inc. v. Broadcom Corp.*, 2008 WL 66932 (S.D. Calif. Jan. 7, 2008), the magistrate judge sanctioned six outside counsel for the failure to conduct a proper search for electronic documents. Qualcomm ultimately produced—after trial—46,000 documents representing more than 300,000 pages that were relevant to the issues in the litigation and that, according to Qualcomm's letter of apology to the district court, "revealed facts that appear to be inconsistent with certain arguments that [counsel] made on Qualcomm's behalf at trial and in the equitable hearing following trial." *Id.* at *6. The six outside counsel were referred to the California Bar for "an appropriate investigation and imposition of possible sanctions." *Id.* at *18.

Whether Qualcomm in-house counsel and staff or its outside lawyers were responsible for the misfeasance was an issue in the sanctions hearing. The six sanctioned lawyers were not permitted by the magistrate judge to use attorney-client privileged communications to defend themselves in the sanctions hearing because Qualcomm invoked the attorney-client privilege. *Id.* at *13. The magistrate judge acknowledged that she was hamstrung by the assertion of the privilege ("the fact remains that the Court does not have access to all of the information necessary to reach an informed decision regarding the actual knowledge of the attorneys"), but she accepted the assertion of the privilege. *Id.* at *13, n.2.

The sanctioned attorneys appealed to the district court, which held that the attorneys had a due process right to defend themselves. The district court found it significant that despite its invocation of the attorney-client privilege, Qualcomm had submitted four declarations to the magistrate judge that were "exonerative of Qualcomm and critical of the services and advice of their retained counsel." Citing ABA Model Rule 1.6(b)(5) and *Meyerhofer v. Empire Fire & Marine Ins. Co.*, 497 F.2d 1190 (2d Cir. 1974), discussed below, among other cases, the district court remanded the matter to the magistrate judge to allow counsel to present

¹⁰ <http://www.jud.ct.gov/Publications/PracticeBook/PB.pdf#page=20>.

¹¹ California's RPC 3-100(B) provides in full: A member may, but is not required to, reveal confidential information relating to the representation of a client to the extent that the member reasonably believes the disclosure is necessary to prevent a criminal act that the member reasonably believes is likely to result in death of, or substantial bodily harm to, an individual. http://rules.calbar.ca.gov/Portals/10/documents/2013_CaliforniaRulesofProfessionalConduct.pdf.

communications with Qualcomm in defense of their conduct apparently both because of the due process right to defend themselves and because Qualcomm's declarations opened the door to revelation of other communications on the subject matter of the declarations:

This introduction of accusatory adversity between Qualcomm and its retained counsel regarding the issue of assessing responsibility for the failure of discovery changes the factual basis which supported the court's earlier order denying the self-defense exception to Qualcomm's attorney-client privilege. [Meyerhofer v. Empire Fire & Marine Ins. Co.](#), 497 F.2d 1190, 1194-95 (2d Cir.1974); [Hearn v. Rhay](#), 68 F.R.D. 574, 581 (E.D.Wash.1975); [First Fed. Sav. & Loan Ass'n v. Oppenheim, Appel, Dixon & Co.](#), 110 F.R.D. 557, 560-68 (S.D.N.Y.1986); A.B.A. Model Rules of Prof. Conduct 1.6(b)(5) & comment 10.

Accordingly, the court's order denying the self defense exception to the attorney-client privilege is vacated. The attorneys have a due process right to defend themselves under the totality of circumstances presented in this sanctions hearing where their alleged conduct regarding discovery is in conflict with that alleged by Qualcomm concerning performance of discovery responsibilities. (Citation omitted).

The exception applying, the communications and conduct relevant to the topic area of records (electronic or other) discovery pertaining to JVT and its parents, its ad-hoc committees, and any other topic regarding the standards-setting process for video compression technology is not privileged information. [Weil v. Investment/Indicators, Research & Mgmt., Inc.](#), 647 F.2d 18, 24 (9th Cir.1981).

Qualcomm v. Broadcom, 2008 WL 638108, *3 (S.D. Cal. Mar. 5, 2008).^{12 13}

Lawyers in California can take comfort in the due process right to be heard, especially where the client uses the privilege as a shield to cloak client communications and conduct while it blames its lawyers for misfeasance. Outside of California, the Model Rules have played a prominent role in the lawyer-client fallout jurisprudence.

MEYERHOFER V. FEDERMAN: A RIGHT TO DISCLOSE CLIENT CONFIDENCES TO AVOID BEING NAMED IN A SECURITIES LAWSUIT AGAINST A FORMER CLIENT

In what remains a leading opinion, *Meyerhofer v. Empire Fire & Marine Ins. Co.*, 497 F.2d 1190 (2d Cir.1974), cited by the district court in *Qualcomm*, blessed a lawyer's use of confidential information to defend himself in a securities matter.

¹² *Weil* held that the voluntary disclosure of a privileged document waived the privilege as to other communications about the same subject matter. 647 F.2d at 24-25. Its citation by the district court means that the district court treated the Qualcomm declarations as a waiver of any privilege associated with communications with counsel on discovery responsibilities.

¹³ After an evidentiary hearing, the magistrate judge withdrew the sanctions against the six attorneys. While recognizing there were significant errors made by outside counsel, there was insufficient evidence to prove that any of them engaged in bad faith, which was required, the magistrate judge held, before the court could impose sanctions under the court's inherent authority. *Qualcomm Inc. v. Broadcom Corp.*, 2010 U.S. Dist. LEXIS 33889, *23, *29 (S.D. Cal. Apr. 2, 2010).

Empire had made a public offering of 500,000 shares of its stock pursuant to a registration statement filed with the Securities and Exchange Commission (SEC) in 1972. A law firm named Sitomer, Sitomer & Porges represented Empire. Stuart Goldberg was a lawyer in the firm and had done some work on the public offering. In April 1973, Empire filed a Form 10-K with the SEC that revealed that the registration statement omitted the disclosure of a \$200,000 payment to the Sitomer firm as well as other compensation arrangements with the law firm.

But long before the April 1973 disclosure, Goldberg had insisted on the disclosure of all fees in the Empire offering (and a second offering he had later worked on called “Glacier”). The Sitomer partners disagreed. Goldberg then resigned from the firm in January 1973. On the same day of his resignation, Goldberg provided information to the SEC regarding the compensation arrangements and followed up that disclosure with an affidavit dated January 26, 1973.

In May 1973, a securities action was filed. Plaintiffs claimed that the registration statement was false and misleading. The Sitomer firm was named a defendant. So was Goldberg.

Goldberg then asked the plaintiff’s law firm (Benson) for an “opportunity to demonstrate that he had been unaware of the finder’s fee arrangement that, he said, Empire and the Sitomer firm had concealed from him all along.” *Id.* at 1193. After consulting with his own counsel and a Special Counsel with the SEC’s Division of Enforcement, Goldberg provided the Benson firm with the January 26th affidavit provided to the SEC to “verify his nonparticipation in the finder’s fee omission and convince the Benson firm that he should not be a defendant.” Satisfied with Goldberg’s explanation, the Benson firm dropped Goldberg from the action. The Benson firm also amended its complaint, adding more factual allegations but without changing the theory of the case. *Id.*

Defendants then moved to disqualify the Benson firm based in part on Model Code Canon 4, which addressed protection of confidential information of a client. The district court granted the motion and barred the Benson firm and Goldberg from acting as counsel or participating with counsel for the plaintiffs.

The court of appeals held that Goldberg had acted properly. Explaining that DR 4-101(C) allows a lawyer to reveal confidences necessary to defend himself against an accusation of wrongful conduct, the court of appeals held that Goldberg was facing such an accusation since he was named as a defendant who knowingly violated the securities laws, a charge with criminal, not just civil, implications. The court of appeals also recognized the potential damage to Goldberg’s reputation: “The damage to his professional reputation which might be occasioned by the mere pendency of such a charge was an even greater cause for concern.” *Id.* at 1195. Hence, the court of appeals held that, “[u]nder these circumstances, Goldberg had the right to make an appropriate disclosure with respect to his role in the public offering. Concomitantly, he had the right to support his version of the facts with suitable evidence.” *Id.*

Did Goldberg, however, reveal too much by giving the Benson firm the thirty-page affidavit with sixteen exhibits that Goldberg had given to the SEC? The court of appeals explained why he did not:

This document not only went into extensive detail concerning Goldberg’s efforts to cause the Sitomer firm to rectify the nondisclosure with respect to Empire but even more extensive detail concerning how these efforts had been precipitated by counsel for the underwriters having come upon evidence showing that a similar nondisclosure was contemplated with respect to

Glacier and their insistence that full corrective measures should be taken. Although Goldberg's description reflected seriously on his employer, the Sitomer firm and, also, in at least some degree, on Glacier, he was clearly in a situation of some urgency. Moreover, before he turned over the affidavit, he consulted both his own attorney and a distinguished practitioner of securities law, and he and Abbey made a joint telephone call to Mr. Sullivan of the SEC. Moreover, it is not clear that, in the context of this case, Canon 4 applies to anything except information gained from Empire. Finally, because of Goldberg's apparent intimacy with the offering, the most effective way for him to substantiate his story was for him to disclose the SEC affidavit. It was the fact that he had written such an affidavit at an earlier date which demonstrated that his story was not simply fabricated in response to plaintiffs' complaint.

Id. Because Goldberg had not acted improperly, the order disqualifying the Benson firm was also vacated. *Id.* at 1196.

There are a number of lessons to learn from *Meyerhofer*. There was no suggestion in *Meyerhofer* that Goldberg did anything improper by giving his affidavit to the SEC. At that point Goldberg had not been accused of any wrongdoing. But he was obviously fearful of the potential damage to his reputation, and probably his ability to practice in the securities field, if the SEC were to pursue an investigation in which he might become a target and he had not come forward with information documenting his concerns about compliance with the disclosure obligations of the securities laws. Then, once he was actually named in the securities action, the court of appeals gave him great leeway to extricate himself from the lawsuit since he was blameless. It did not focus on the scope of the disclosure, choosing instead to place emphasis on the timing of the affidavit since it was given to the SEC three months before suit was ever brought. The court of appeals also appeared to place important weight on the fact that Goldberg consulted with counsel before deciding on a course of conduct, a choice that itself has been the subject of reported decisions.

DISCLOSING CONFIDENTIAL INFORMATION TO A LAWYER TO OBTAIN LEGAL ADVICE

As noted above, Model Rule 1.6(b)(4) specifically allows a lawyer to disclose privileged information to obtain legal advice. Case law also exists endorsing the use of privileged information in this manner.

In *Spratley v. State Farm Mut. Auto Ins. Co.*, 78 P.3d 603 (Utah 2003), for example, the Utah Supreme Court reversed an order disqualifying counsel consulted by plaintiffs, Spratley and Pearce, because counsel had received confidential information. The Utah Supreme Court explained that any other outcome would render the right to retain counsel illusory:

Given our resolution of the trial court's order preventing disclosures in this litigation, we cannot sustain an order of disqualification against Humphreys or his firm. Spratley and Pearce must be able to seek the advice of counsel to prosecute their claim against State Farm. If chosen counsel could be disqualified because of disclosures made by the plaintiffs for the purpose of legal advice and representation, the ability to retain counsel in such matters would

be illusory. Under the facts of this case we cannot sanction a result that would deprive Spratley and Pearce of the opportunity to employ counsel.

Id. at 611.¹⁴

Alexander v. Tandem Staffing Solutions, 881 So.2d 607 (Fla. Dist. Ct. App. 2004) cited *Spratley* in reaching the same result. Alexander made a whistleblowing claim against her former employer under a Florida statute. Alexander had served as Tandem's general counsel.¹⁵ The trial court disqualified Alexander's counsel, Rosenfeldt, because Alexander had disclosed privileged information to Rosenfeldt. Relying on Florida's evidence code and Florida RPC 4-1.6(c)(2) which follows Model Rule 1.6(b)(5), the court of appeal reversed.

Section 90.504(4)(c), Florida Statutes, provides that there is no lawyer-client privilege when "[a] communication is relevant to an issue of breach of duty by the lawyer to the client or by the client to the lawyer, arising from the lawyer-client relationship." The court of appeal then held:

Alexander's whistleblower claim was a "controversy between the lawyer and client" within the meaning of rule 4-1.6(c)(2) and an "issue of breach of duty ... by the client to the lawyer" under [section 90.502\(4\)\(c\)](#). Thus, her disclosures to Rosenfeldt reasonably pertaining to the claim fell outside the privilege, so that there was no basis to disqualify Rosenfeldt from representing Alexander.

Fox Searchlight Pictures Inc. v. Paladino, 106 Cal. Rptr.2d 906 (Cal. Ct. App. 2001) reached the same conclusion making the point that if an in-house counsel could not disclose confidential information to his or her own counsel, then that in-house counsel could not appear *pro se*—a conclusion inconsistent with California law that permits wrongful discharge claims:

If an attorney representing a former in-house counsel against her employer must be disqualified because the client might divulge confidential or privileged information, then it must logically follow the in-house counsel also cannot represent herself against her former employer because she possesses the employer's confidential information. In other words, if we accepted Fox's view the disqualification rules would effectively ban any litigation by a former in-house counsel against the employer as well as bar in-house counsel from defending actions brought by the employer. ... [S]uch a result is contrary to the decision in [General Dynamics](#)

¹⁴ The Utah Supreme Court did suggest, however, that counsel might be disqualified from representing other clients against the same defendant. "Representing a former in-house attorney as a client and learning the substance of confidential communications does not disqualify an attorney from representing that client, but it may require disqualification of the attorney from representing other clients. State Farm has opposed other litigants represented by Humphreys and his firm, but those cases are not now before us. The disqualification in this case was inappropriate." 78 P.3d 603, 611.

¹⁵ Florida did not adopt the precise text of Model Rule 1.6(b)(4). Instead, Florida's RPC 4-1.6(c)(5) provides that a lawyer may reveal confidential information to the extent that the lawyer reasonably believes necessary "to comply with the Rules of Professional Conduct." The Comment to the Florida rule, however, explains a lawyer is not "precluded" from securing legal advice to determine compliance with Florida's RPC: "A lawyer's confidentiality obligations do not preclude a lawyer from securing confidential legal advice about the lawyer's personal responsibility to comply with these rules. In most situations, disclosing information to secure such advice will be impliedly authorized for the lawyer to carry out the representation. Even when the disclosure is not impliedly authorized, subdivision (c)(5) permits such disclosure because of the importance of a lawyer's compliance with the Rules of Professional Conduct." Florida's rules of professional conduct can be found at [https://www.floridabar.org/TFB/TFBResources.nsf/Attachments/0A266C6138C4A15685256B29004BD617/\\$FILE/RRTFB%20CHAPTER%204.pdf?OpenElement](https://www.floridabar.org/TFB/TFBResources.nsf/Attachments/0A266C6138C4A15685256B29004BD617/$FILE/RRTFB%20CHAPTER%204.pdf?OpenElement).

Corp. v. Superior Court in which our Supreme Court held a former in-house counsel may sue her employer for wrongful termination so long as she does not publicly disclose information the employer is entitled to keep secret.

Id. at 915.¹⁶ The appellate court later added the limitations applicable to the disclosure:

[W]e do not believe such disclosure violates an in-house counsel's duty of confidentiality to the employer so long as the disclosure is limited to information the in-house counsel reasonably believes is necessary to her attorney's preparation and prosecution of the case. Finally, fundamental fairness to the plaintiff requires the plaintiff be allowed to make such a limited disclosure of the former employer's secrets to her own attorneys to the extent necessary to prepare a claim for wrongful discharge.

Id. at 920.¹⁷

The court in *X. Corp. v. Doe*, 805 F. Supp. 1298 (E.D. Va. 1992) dismissed a breach of fiduciary duty claim by a former employer based on the disclosure of client confidences by a former in-house counsel to his attorney. The court held that allowing the claim would deprive defendant of his ability (1) to pursue a wrongful discharge claim and (2) defend himself in plaintiff's action against him to seek return of certain confidential information that the former in-house counsel had retained to support a *qui tam* claim against his former employer:

Simply put, the inability to disclose relevant facts, including X Corp.'s alleged confidential communications, to his own attorney would cripple Doe's ability to defend against X Corp.'s attack on his professional conduct in the matter at bar. See Virginia Code of Professional Responsibility DR4-101(C)(4) (1983) (lawyers are permitted to reveal client confidences and secrets where necessarily to establish the reasonableness of fees or to defend against accusations of wrongful conduct). Moreover, precluding Doe from making disclosures to his counsel would prevent him from effectively prosecuting his personal claims against X Corp. both in his state law-based action now on appeal in the Fourth Circuit Court of Appeals and his counterclaim in this case.

Id. at 1302, n.5.

¹⁶ The appellate court later added: "[F]undamental fairness requires the plaintiff be allowed to make a limited disclosure of her former client's ostensibly confidential information to her own attorneys for purposes of preparing and prosecuting a wrongful termination suit against the former client. If the employer can stifle even this limited disclosure, then *General Dynamics* is nothing more than a judicial practical joke because even if in-house counsel succeeds in a wrongful termination action against the former client she may be sanctioned or lose her license to practice or be sued separately by the former client for breach of fiduciary duty." 106 Cal. Rptr.2d at 923.

¹⁷ The appellate court explained that "if the attorneys representing the in-house counsel are to assist their client in avoiding impermissible public disclosure of the employer's confidences in court proceedings, it is essential for them to have complete knowledge of all potentially confidential information known to their client and relevant to the litigation. It is only through such full disclosure the attorneys for the in-house counsel can make judgments about what is disclosable and what is not." 106 Cal. Rptr.2d at 922. The court also recognized that information that may be introduced at trial is disclosable to counsel before trial: "If an attorney, in protecting her own rights, is entitled to introduce otherwise privileged communications at trial, *a fortiori* she is entitled to reveal those communications to her lawyers in advance of trial. As we explain below, if this were not the case, an attorney could successfully defend the ethics of her behavior in court only to be disciplined for unethical behavior by the State Bar." *Id.* at 923 (footnote omitted).

FEDERAL VERSUS STATE LAW IN EVALUATING THE SELF-DEFENSE EXCEPTION TO USE PRIVILEGED INFORMATION

In federal court, what law governs the outcome of the application of the self-defense exception?

Because 49 states follow the Model Rules, jurisdictions other than California will apply a state's equivalent to Model Rule 1.6(b)(5). However, federal law will apply to questions regarding the attorney-client privilege. The congressional committee notes to Fed. R. Evid. 501 provide that, "In nondiversity jurisdiction civil cases, federal privilege law will generally apply. In those situations where a federal court adopts or incorporates state law to fill interstices or gaps in federal statutory phrases, the court generally will apply federal privilege law."¹⁸

A few federal decisions make the point. The Fifth Circuit in *Willy v Administrative Review Board*, 423 F.3d 483 (5th Cir. 2005) rejected an argument that Texas privilege law controlled the admissibility of an environmental audit report claimed to privileged:

We have no difficulty in concluding that federal law applies here. "Questions of privilege that arise in the course of adjudication of federal rights are 'governed by the principles of the common law as they may be interpreted by the courts of the United States in the light of reason and experience.'" (Footnote omitted.) As Willy's claims arise under federal law-and are before us on federal question jurisdiction under 28 U.S.C. § 1331-the federal common law of attorney-client privilege governs our analysis.

Id. at 495.

In *First Federal Savings & Loan Ass'n of Pittsburgh v. Oppenheim, Appel, Dixon & Co.*, 110 F.R.D. 557 (S.D.N.Y. 1986), plaintiff asserted that state law (California) governed the evaluation of a lawyer's proposed disclosure of privileged information. The district court disagreed explaining that Fed. R. Evid. 501 controls the privilege evaluation:

The pertinent choice-of-law rule is established by Fed.R.Evid. 501. It provides that privileges "shall be governed by the principles of the common law as they may be interpreted by the courts of the United States in the light of reason and experience..." except that, "with respect to an element of a claim or defense as to which State law supplies the rule of decision, the privilege...shall be determined in accordance with State law."

Although plaintiff asserts principally state law claims against OAD, the information at issue is also pertinent to the federal claims it asserts and to the third-party claims asserted by OAD based upon those federal claims. When evidence that is the subject of an asserted privilege is relevant to both federal and state law claims, the courts have consistently held that federal law governs the privilege. [Citations omitted] This approach is consistent with the Senate Report accompanying the Senate's version of [Rule 501](#), which states that "[i]t is also

¹⁸ Notes of the Conference Committee, House Rep. No. 93-1597. The Committee notes contain a quote by Justice Jackson in his concurring opinion in *D'Oench, Duhme & Co. v. Federal Deposit Ins. Corp.*, 315 U.S. 447, 471 (1942): A federal court sitting in a non-diversity case such as this does not sit as a local tribunal. In some cases it may see fit for special reasons to give the law of a particular state highly persuasive or even controlling effect, but in the last analysis its decision turns upon the law of the United States, not that of any state."

*intended that the Federal law of privileges should be applied with respect to pendent State law claims when they arise in a Federal question case.” See [S.Rep. No. 93–1277](#), reprinted in 1974 U.S. Code, Cong. & Admin. News 7051, 7059 n. 16; 2 J. Weinstein & M. Berger, *Weinstein’s Evidence* ¶ 501 [02] at 501–21 to 22 (1985). Accordingly federal law governs the attorney-client privilege issues in this case.*

Id. at 560. *See also Nesselrotte v. Allegheny Energy, Inc.*, 2008 WL 2858401, *4 (W.D. Pa. July 22, 2008) (“Because this Court has federal question jurisdiction over the instant matter, federal law controls as to the attorney client privilege.”)

Oppenheim is a significant decision beyond this procedural precedent, however, because it addresses the question of reasonable necessity.

THE SCOPE OF DISCLOSURE UNDER THE SELF-DEFENSE EXCEPTION TO PRESERVING CLIENT CONFIDENCES: WHAT IS REASONABLE NECESSITY?

First Federal Savings & Loan Ass’n of Pittsburgh v. Oppenheim, Appel, Dixon & Co., *supra*, contains a valuable discussion of *Meyerhofer* and the common law history of the self-defense exception to the revelation of privileged information. *Id.* at 560-66. After conducting this historical survey, the magistrate judge concluded that the self-defense principle was established at common law, but limitations on the scope of disclosure remained for determination: “In sum, the exception for attorney self-defense is recognized and accepted by the courts, albeit with varying degrees of warmth. The key issue, then, involves what limitations—both procedural and substantive—must be placed on its invocation.” *Id.* at 566.

Here are the key facts. A former general counsel, Harkin, was seeking to make a disclosure in discovery in a securities action brought against his former employer, Comark, but in which Harkin was also named as a defendant. Comark was in bankruptcy. The proposed disclosure was a defensive one, and related in part to the alleged comingling of assets of the client with another entity and with alleged misleading information to state regulatory officials. *Id.* The court recognized that there was a potential for abuse if a plaintiff could sue a lawyer “for the sole purpose” of obtaining privileged information as part of the lawyer’s defense, but then satisfied itself that the claim against the former general counsel was a *bona fide* one. *Id.*

The court then focused on the importance of balancing the client’s interest in protecting confidential information and the lawyer’s interest in disproving wrongdoing by the lawyer. Hence, the court directed the lawyer to submit for *in camera* review all of the documents the lawyer proposed to disclose “together with an affidavit explaining the necessity for his proposed disclosures, both by deposition and by document production.” The bankruptcy trustee “as the holder of the privilege” responded to Harkins’ showing. *Id.*

How did the court evaluate the submissions? By applying the “somewhat opaque term” of “reasonable necessity” contained in Model Rule 1.6. The court held:

In effect, disclosure is authorized for those items that, as a practical matter, seem likely to provide significant assistance to Harkins’ defense. In general terms, this standard permits Harkins to testify about all of his conversations with Comark officers or employees concerning the commingling problem since it will be necessary for Harkins to explain what

he knew about the issue, what he did about it, what he advised his client to do about it, and what he did not do about it. Necessarily, the production of documents must be similar in scope.

Id.

Could the former general counsel cherry pick the documents he intended to disclose, by providing helpful ones and withholding potentially damaging ones? The court said “no”:

I conclude that fairness would require disclosure of all documents pertaining to the communications at issue, whether Harkins volunteered them or not. This is a logical and unavoidable extension of the long-settled rule that a client’s disclosure of a portion of an attorney-client privileged document, or of some but not all privileged documents relating to a particular event, may constitute a waiver of the privilege.

Id. at 567. At a minimum, the court added, “waiver will be found for so much of the withheld information ‘as will make the disclosure complete and not misleadingly one-sided.’” *Id.* (citation omitted). Again, the court required an *in camera* inspection of all documents Harkins had listed as privileged to ensure that the disclosure was not “misleadingly one-sided.” *Id.* at 568. The court then thoughtfully set forth the scope of the authorized disclosure:

Upon a review of the in camera affidavit of Daniel Harkins, sworn to April 29, 1986, and the annexed documents, I find that disclosure, in whole or in part, of all of the documents he proposes to produce is reasonably necessary to Harkins’ defense. The only limitation is that certain portions of certain of the documents appear not to relate to the issues raised by the lawsuit. These document fragments are identified by the trustee in his “Response ... to the Affidavit of Daniel M. Harkins”, and in his reply Harkins does not dispute the trustee’s assertion that the identified document fragments are irrelevant to his defense. Upon review, I agree in general with the trustee’s characterization, and accordingly, with very limited exceptions, find that there is no reason to permit disclosure of those portions of the privileged documents. The segments to be withheld from disclosure by Harkins are listed in an appendix to this Memorandum and Order.

Having also reviewed those additional documents that Harkins has not sought to disclose, I conclude that none is sufficiently pertinent to his defense to justify overriding Comark’s privilege.

Finally, Harkins also will be permitted to testify about the disclosed documents and about his role in the events that are the subject of OAD’s claims against him.

Id.

Meyerhofer and *Oppenheim* address circumstances where a lawyer is sued by a third party or legitimately fears being named as a defendant or a target of a government investigation. *Qualcomm* addresses the situation where a lawyer is facing sanctions and must use privileged information to establish a defense against sanctions being sought against the lawyer. What rules apply when the lawyer is employed by the client and then is

terminated from employment on grounds that give rise to a claim against the client for a common law or statutory wrongful discharge or discrimination claim?

WRONGFUL DISCHARGE CLAIMS BY ATTORNEYS AGAINST THEIR FORMER EMPLOYERS

The wrongful discharge picture can get muddled depending upon the jurisdiction. But before discussing the case law, there are ethics opinions that bear on the topic.

Ethics Opinions

ABA Formal Opinion 01-424 addressed the question of whether a former in-house counsel could pursue a wrongful discharge claim against an employer. It has been cited favorably in several court opinions discussed below.

In Formal Opinion 01-424, the ABA Standing Committee on Ethics and Professional Responsibility determined that the Model Rules do not prohibit the claim but added that the lawyer must “take care not to disclose client information beyond that information the lawyer reasonably believes is necessary to establish her claim.” After concluding that the word “claim” in Model Rule 1.6(b)(5) embraces a retaliatory discharge claim, the ABA Ethics Committee cited to what is now Comment [16] to guide lawyers on the scope of the disclosure. Comment [16] provides in pertinent part:

Paragraph (b) permits disclosure only to the extent the lawyer reasonably believes the disclosure is necessary to accomplish one of the purposes specified ... [A] disclosure adverse to the client's interest should be no greater than the lawyer reasonably believes necessary to accomplish the purpose. If the disclosure will be made in connection with a judicial proceeding, the disclosure should be made in a manner that limits access to the information to the tribunal or other persons having a need to know it and appropriate protective orders or other arrangements should be sought by the lawyer to the fullest extent practicable.¹⁹

The Opinion then contains these suggestions on how to proceed:

The measures necessary to protect information that may be disclosed will be unique to each situation. For example, a lawyer should consider the protections offered by in camera review at a pre-trial evidentiary hearing. To prevent unnecessary disclosure of confidential information, a lawyer should consider requesting that a court seal the record of the proceedings and consider in an appropriate case whether the action should go forward without disclosing even the names of the parties.

¹⁹ When this opinion was issued, Comment [16] was Comment [19] and read: “[a] lawyer must make every effort practicable to avoid unnecessary disclosure of information relating to a representation, to limit disclosure to those having the need to know it, and to obtain protective orders or make other arrangements limiting the risk of disclosure.”

In making the suggestions that the record be sealed or that the names of the parties not be disclosed, the ABA Ethics Committee cited *Doe v. A. Corp.*, 709 F.2d 1043 *reh'g denied*, 717 F.2d 1399 (5th Cir. 1983). In this matter, the plaintiff was a former in-house counsel who advised his employer on employee benefit plans. After he left employment, he sued his former employer for benefits allegedly due him and a class he sought to represent. He was allowed to proceed on his own behalf only, not on behalf of the class. The court of appeals explained the “John Doe” caption:

To prevent identification of the company and the possible disclosure of confidential information concerning its affairs, the district court granted the defendant corporation's motion to seal the record; require the suit to be prosecuted without revealing the name of either the lawyer or the corporation; and enjoin Doe and his co-counsel from pursuing any actions arising out of the facts on which his suits were based, communicating with other persons to induce them to bring a similar action, and disclosing or using any information Doe gained during his employment by the corporation.

Id. at 1045, n.1

After explaining that a lawyer “does not forfeit his rights simply because to prove them he must utilize confidential information,” and a client does not “gain the right to cheat the lawyer by imparting confidences to him,” the court of appeals concluded that the former employer’s interests could be protected by anonymity:

The sole interest A Corporation can assert, other than defeating Doe's claim, is preservation of confidentiality for the secrets Doe learned while in its employment. The corporation's interest in confidentiality, however, can be at least partially protected by anonymity. There is no social interest in allowing the corporation to conceal wrongdoing, if in fact any has occurred. Nor is there any social interest in allowing it to deny Doe pension rights or insurance benefits if they are legally due him. But that would be the effect of our refusing to allow Doe to prosecute his individual lawsuit.

Id. at 1050.

Oregon Formal Opinion 1994-136, republished as Formal Opinion 2005-136,²⁰ involved a lawyer terminated for refusing to sign and verify a patent application that contained a material misrepresentation, thereby subjecting the lawyer to potential criminal prosecution. The lawyer sought an opinion from the Oregon Bar regarding disclosures the lawyer might make in litigation that the lawyer intended to bring for wrongful termination. In pertinent part, Oregon’s RPC 1.6 contained the same language as Model Rule 1.6. After assuming that a legally viable claim exists, the Oregon Ethics Committee determined, parroting the rule, that disclosure could be made as long as the disclosure was “reasonably necessary to establish the claim asserted.” The lawyer was required to “ensure that any confidential information is revealed in the least public manner, including insistence on an appropriate protective order.”

²⁰ <http://www.osbar.org/docs/ethics/2005-136.pdf>. The Oregon Bar republished it as Ethics Op. 2005-136 to convert citations to the Oregon RPC.

The Philadelphia Bar Association published Ethics Opinion 99-6 in August 1999²¹ in affirmatively answering this question: “May a former corporate counsel employed in-house make use in the course of pursuing pursue a wrongful termination claim against his former employer and client of information that may be either privileged and/or confidential within the meaning of those terms under the Rules of Professional Conduct?” Pennsylvania’s RPC 1.6(c)(4) is identical to Model Rule 1.6(b)(5). In this opinion, the Philadelphia Bar Ethics Committee analogized a claim for compensation based on an alleged wrongful termination of an in-house counsel to a claim against a client by outside counsel for fees. In so doing, the Committee relied on Section 117 of the Restatement of the Law Governing Lawyers which, in draft form at the time, provided that the attorney-client privilege does not apply “to a communication that is relevant and reasonably necessary for a lawyer to employ in a proceeding” to resolve a dispute with a client “concerning compensation or reimbursement that the lawyer believes the client owes the lawyer.” The Committee explained that a comment to Section 117 stated that this principle applied to in-house counsel claims for salary or benefits and noted that an earlier Philadelphia Bar ethics opinion had applied Rule 1.6 to in-house counsel.²² The Committee did outline a number of cautionary principles that had to be observed by the lawyer:

- 1. The information must be reasonably necessary to advancing the claim that is being made.*
- 2. The claim that is being made must be a reasonable one.*
- 3. The information must be used only after the client has been forewarned that it might possibly be used in connection with advancing the claim. A generalized notice that such information may be used should suffice.*
- 4. The information should be used in the most minimal way possible, and in a way which is designed to preserve the confidentiality of the information to the extent reasonably possible. This could include submitting it to the Court in camera, under seal, entering into confidentiality agreements and the like. The lawyer should make use of any procedural mechanism available to protect the information from any use other than the most narrow use possible in advancing the claim.*

This view of the matter is not universal. As noted earlier, the District of Columbia’s Rule 1.6(e)(3) allows for defensive use of privileged information by lawyers, not offensive use. In Opinion 363 (October 2012),²³ the D.C. Bar Legal Ethics Committee made three determinations:

- 1.** An in-house lawyer “may not disclose or use her employer/client confidences or secrets in support of the lawyer’s claim against the employer/client for employment discrimination or retaliatory discharge unless expressly authorized by Rule 1.6.” D.C. RPC 1.6(e)(3) allows for disclosure “to establish a defense” and thus is available for defensive purposes only based on the plain text of the rule, the Committee determined. The Committee contrasted the DC rule with Model Rule 1.6(b)(5), which allows for the use of confidential information to “establish a claim or defense.”

²¹ <http://www.philadelphiabar.org/page/EthicsOpinion99-6?appNum=2>.

²² The Committee was referring to Philadelphia Bar Association Ethics Opinion 96-8.

²³ http://www.dcbar.org/for_lawyers/ethics/legal_ethics/opinions/opinion363.cfm.

2. “If the employer/client puts the lawyer’s conduct in issue, however (e.g., by lodging an affirmative defense or a counterclaim), the lawyer may disclose or use the employer’s confidences or secrets insofar as reasonably necessary to respond to the employer/client’s contention.”
3. “An in-house lawyer is not prohibited from bringing such a claim against her employer/client merely because the employer/client may find it necessary or helpful to disclose its confidences or secrets in defending against the lawyer’s claim.”

And just as there are differences among the writers of bar ethics opinions, so too are there differences in the state courts.

State Case Law Prohibiting Wrongful Discharge Claims

In reading the case law discussion that follows, readers are cautioned to put each case in the context of the rule of professional conduct in effect at the time of the decision. As the ethics opinions above reflect, Model Rule 1.6 is broader than its counterpart under the Model Code.

Balla v. Gambro, Inc. (Illinois)

In *Balla v. Gambro, Inc.*, 584 N.E.2d 104, 109. (Ill. 1991), the Illinois Supreme Court refused to allow an in-house attorney to bring a retaliatory discharge claim. Balla had advised Gambro to reject a shipment of dialyzers that did not comply with regulations of the Food and Drug Administration (FDA). The advice was ignored and he was discharged. He then reported the shipment of the dialyzers to the FDA who seized it and determined the product to be “adulterated” within the meaning of the Food and Drug Act. Balla’s claim of wrongful discharge in contravention of Illinois public policy then followed. The trial court granted Gambro summary judgment. The appellate court reversed. The Illinois Supreme Court agreed with the trial court.

The court began its analysis with a discussion of *Herbster v. North American Co. for Life & Health Ins.*, 501 N.E.2d 343 (Ill. App. Ct. 1986), explaining that the plaintiff in *Herbster* had alleged that he was told to destroy or remove discoverable information that had been requested in pending lawsuits, refused to do so, and then was fired. His subsequent retaliatory discharge claim was rejected based on the attorney-client relationship. The Illinois Supreme Court agreed with the conclusion in *Herbster* that “generally, in-house counsel do not have a claim under the tort of retaliatory discharge.” *Id.* at 108. However, the court based its decision “as much on the nature and purpose of the tort of retaliatory discharge, as on the effect on the attorney-client relationship.” The court explained that the tort of retaliatory discharge is premised on the protection of public policy but in this matter protecting the lives and property of citizens is “adequately safeguarded without extending the tort of retaliatory discharge to in-house counsel.” *Id.* at 108.

Why? Because Balla had a duty under then-Illinois RPC 1.6(b) to report his employer/client’s intention to sell adulterated dialyzers since that would, in RPC 1.6(b)’s terms, prevent the client from committing an act that would result in death or serious bodily injury.²⁴

The court rejected Balla’s argument about the difficult position he would be in if the tort were not permitted:

²⁴ Illinois RPC 1.6(c) now reads: “A lawyer shall reveal information relating to the representation of a client to the extent the lawyer reasonably believes necessary to prevent reasonably certain death or substantial bodily harm.”

[I]n-house counsel would face two alternatives: either comply with the client/employer's wishes and risk both the loss of a professional license and exposure to criminal sanctions, or decline to comply with client/employer's wishes and risk the loss of a full-time job and the attendant benefits.

Id. at 109. But the court said there was no option here. Balla had to report to the FDA Gambro's intention to sell or distribute the faulty dialyzers to protect the public.

The court then added that allowing the tort would have an "undesirable effect" on the in-house attorney-client relationship. Where a client lacks trust in a lawyer, the court held, the client should be able to discharge the lawyer. *Id.* In addition, the candor integral to the attorney-client relationship might be jeopardized, the court felt: "We believe that if in-house counsel are granted the right to sue their employers for retaliatory discharge, employers might be less willing to be forthright and candid with their in-house counsel. Employers might be hesitant to turn to their in-house counsel for advice regarding potentially questionable corporate conduct knowing that their in-house counsel could use this information in a retaliatory discharge suit." *Id.*

The court then explained that its refusal to extend the right to bring a retaliatory discharge claim to in-house counsel is based on other ethical considerations. One was that Balla had an obligation to "withdraw" if continued representation would result in violation of the Illinois Rules of Professional Conduct.²⁵ While recognizing that resigning from employment might be "difficult economically and perhaps emotionally" the court "refuse[d] to allow in-house counsel to sue their employer/client for damages because they obeyed their ethical obligations." *Id.* at 110.²⁶

The court also thought that giving Balla a right to recover damages for complying with his ethical obligation would require his former employer/client to "essentially mitigate the financial harm the attorney suffered for having to abide by Rules of Professional Conduct. This, we believe, is impermissible for all attorneys know or should know that at certain times in their professional career, they will have to forgo economic gains in order to protect the integrity of the legal profession." *Id.*²⁷

Wise v. Consolidated Edison Co. of N.Y., Inc. (New York)

Wise v Consolidated Edison Co. of N.Y., Inc., 282 A.D.2d 335 (N.Y. 1st Dept. 2001) is a one-page opinion decided under the Code of Professional Responsibility that permits a lawyer to use confidential information only "to defend" against an accusation of wrongful conduct:

²⁵ Illinois RPC 1.16 is the source of the obligation. It is patterned after Model Rule 1.16(a)(1) that provides that a lawyer "shall" withdraw from representation of a client if the representation "will result in violation of the rules of professional conduct or other law."

²⁶ Balla cited *Willy v. Coastal Corp.*, 647 F. Supp. 116 (S.D.Tex.1986) in support of its holding. *Willy* was reversed because there was no federal question jurisdiction. 855 F.2d 1160 (5th Cir. 1988). The matter was refiled in state court resulting in a decision that rejected Balla's reasoning. *Willy v. Coastal States Management Co.*, 939 S.W.2d 19 (Tex. App. Ct. 1997).

²⁷ *Ausman v. Arthur Andersen LLP*, 810 N.E.2d 566 (Ill. App. Ct. 2004) refused to make an exception to the rule expressed in *Balla*. In this matter, the former in-house counsel argued that she was discharged in violation of a public policy that favored accountant independence under rules of the SEC. The appellate court said that it doubted that plaintiff's complaint alleged a "clearly mandated public policy," but added that even if it did, allowing the suit would have a chilling effect on the communications between in-house lawyers and their employers/clients. *Id.* at 572 (citing *Balla*, 584 N.E.2d at 104).

Plaintiff's affirmative claims against defendant for damages, grounded in the theory of wrongful discharge, do not fall within the exception permitting an attorney to disclose confidences or secrets necessary to defend "against an accusation of wrongful conduct" (see, DR 4-101[C][4]).

Id. at 336. Cf. *Eckhaus v. Alfa-Laval, Inc.*, 764 F. Supp. 34 (S.D.N.Y. 1991). In this matter, the district court granted summary judgment to defendant in a defamation suit where former in-house counsel was in arbitration on his alleged constructive discharge, but was trying by the defamation suit to achieve an adjudication of the same claim. "Permitting disclosure of client confidences and secrets under these circumstances would impinge upon the sanctity of the attorney-client relationship in a manner not contemplated by the Disciplinary Rules." *Id.* at 38. The court, however, acknowledged that plaintiff had the right under the Disciplinary Rules to defend himself on defendant's counterclaims for breach of contract and breach of fiduciary duty and therefore denied defendant's motion for summary judgment on the counterclaims. *Id.*²⁸

In *O'Brien v. Stolt-Nielsen Transportation Group, Ltd.*, 2004 WL 304318 (Conn. Super. Ct. Jan. 30, 2004), the trial court determined that New York's Model Code would apply to a New York-licensed lawyer working in-house for a company in Connecticut in a suit by the lawyer for wrongful discharge. Relying on *Wise*, the trial court held that O'Brien could only divulge client confidences defensively, not offensively:

The court concludes there is really only one choice and that is to prohibit O'Brien from divulging client confidences and secrets in violation of the New York Code of Professional Responsibility. The restrictions imposed by New York's DR4-101(B) are quite clear, and they prohibit O'Brien from using client confidential information to prosecute any claim against the client except to collect a fee or to defend himself against an accusation of wrongful conduct. The alternative, to allow O'Brien to use such confidential information in this case, in violation of the rules which govern his professional conduct is unacceptable. It would put this court in the position of standing aloof and uninvolved while observing, and possibly appearing to condone, a breach of professional duty.

Id. at *6.²⁹

State Case Law Permitting Wrongful Discharge Claims With Varying Controls Over Disclosure

The discussion which follows is comprehensive but not necessarily exclusive. Where courts have allowed retaliatory discharge claims, they have considered restrictions on disclosure of privileged information. The spectrum of restrictions ranges from a potential inability to pursue a claim to limitations on disclosure that allow the claim to be heard but client confidences protected. Claims brought under whistleblower statutes, however, may consider whether information claimed to be privileged deserves that status.

²⁸ The court suggested that defendant might want to voluntarily dismiss its counterclaims in lieu of allowing plaintiff to defend himself, which presumably would have resulted in disclosure of client confidences. 764 F. Supp. at 38.

²⁹ New York has since adopted the Model Rules but, as noted earlier, did not adopt the phrase to "establish a claim" in its version of Rule 1.6.

General Dynamics Corp. v. Superior Court (California)

It did not take long for another state Supreme Court to react to *Balla*. In *General Dynamics Corp. v. Superior Court*, 876 P.2d 487, 500 (Cal. 1994), the California Supreme Court had a different perspective on an in-house counsel's right to sue a former employer.

The plaintiff, Andrew Rose, had worked at General Dynamics for 14 years. He was fired “abruptly” in 1991. The company said it had lost confidence in his ability to represent vigorously its interests. Rose said the real reason he was fired related to the company's efforts to cover up widespread drug use among the work force, a refusal to investigate bugging of the office of the company's chief of security, and displeasure over certain advice Rose had given. Rose's complaint alleged an implied contract that good cause was required to terminate his employment, and wrongful discharge for reasons that violated fundamental public policy. General Dynamics' motion to dismiss was denied and a California appellate court denied a petition for writ of mandate. In this procedural posture, the case reached the California Supreme Court, which in reversing supported the in-house counsel's right to bring a retaliatory discharge claim:

The case for shielding the in-house attorney—among all corporate employees—from retaliation by the employer for either insisting on adhering to mandatory ethical norms of the profession or for refusing to violate them is thus clear. And because their professional work is by definition affected with a public interest, in-house attorneys are even more liable to conflicts between corporate goals and professional norms than their nonattorney colleagues. On this view, then, in-house counsel, forced to choose between the demands of the employer and the requirements of a professional code of ethics have, if anything, an even more powerful claim to judicial protection than their nonprofessional colleagues.

Id. at 498.

The court considered and rejected the reasoning of *Balla*, *Herbster*, and the initial federal court decision in *Willy*, saying that withdrawal for an in-house attorney means resigning from employment, an unpalatable option for someone who may not be able to find other work:

In addition, the emphasis by the Balla, Herbster and Willy courts on the “remedy” of the in-house attorney's duty of “withdrawal” strikes us as illusory. Courts do not require nonlawyer employees to quietly surrender their jobs rather than “go along” with an employer's unlawful demands. Indeed, the retaliatory discharge tort claim is designed to encourage and support precisely the opposite reaction. Why, then, did the courts in these three cases content themselves with the bland announcement that the only “choice” of an attorney confronted with an employer's demand that he violate his professional oath by committing, say, a criminal act, is to voluntarily withdraw from employment, a course fraught with the possibility of economic catastrophe and professional banishment?

[T]he withdrawal “remedy” fails to confront seriously the extraordinarily high cost that resignation entails. More importantly, it is virtually certain that, without the prospect of limited judicial access, in-house attorneys—especially those in mid-career who occupy senior positions—confronted with the dilemma of choosing between adhering to professional ethical norms and surrendering to the employer's unethical demands will almost always find silence

the better part of valor. Declining to provide a limited remedy under defined circumstances will thus almost certainly foster a degradation of in-house counsel's professional stature.

Id. at 502 (emphasis in original).

The court also reasoned that if a nonattorney could bring a claim and governing professional rules or statutes expressly remove the requirement of attorney confidentiality, an attorney should have the same judicial access. *Id.* “Thus,” the court said, to determine whether an in-house counsel has a retaliatory discharge claim, “a court must first ask whether the attorney was discharged for following a mandatory ethical obligation prescribed by professional rule or statute.” *Id.* If so, “under most circumstances,” the attorney has a claim. *Id.* at 502-03. If the conduct in which the attorney has engaged is, instead, “ethically permissible, but not required by statute or ethical code,” then a court must ask whether the conduct is of the kind that would “give rise to a retaliatory discharge action by a *non* attorney employee” and whether some statute or ethical rule “specifically permits the attorney to depart from the usual requirement of confidentiality with respect to the client-employer and engage in the ‘nonfiduciary’ conduct for which he was terminated.” *Id.* at 503 (emphasis in original).

To put a finer point on the nature of the cause of action, the court explained that an in-house attorney’s cause of action is grounded in the obligation “to adhere to ethical norms specific to the profession. The cause of action is thus one designed to support in-house counsel in remaining faithful to those fundamental public policies reflected in the governing ethical code when carrying out professional assignments.” *Id.* Where there would not be a privilege—for example, where the lawyer believes that disclosure of confidential information is necessary to prevent the client from committing a criminal act that the lawyer believes is likely to result in death or substantial bodily harm and is then fired—there exists a claim for retaliatory discharge.

On the other hand, an in-house attorney who “publicly exposes the client’s secrets will usually find no sanctuary in the courts.” The court then seemed to undermine its own earlier holding when it explained that where the “elements of a wrongful discharge in violation of fundamental public policy cannot, for reasons peculiar to the particular case, be fully established without breaching the attorney-client privilege, the suit must be dismissed in the interest of preserving the privilege.” *Id.* at 503-04. But the court added that such “drastic action will seldom if ever be appropriate at the demurrer stage of litigation.” *Id.* at 504. “Rather,” the court explained, “in the usual case, whether the privilege serves as a bar to the plaintiff’s recovery will be litigated and determined in the context of motions for protective orders or to compel further discovery responses, as well as at the time of a motion for summary judgment.” *Id.*

The court also insisted that the privilege should not be diluted just because an in-house counsel is involved. Trial courts should take appropriate steps to avoid that dilution. The court described them as follows:

[T]he trial courts can and should apply an array of ad hoc measures from their equitable arsenal designed to permit the attorney plaintiff to attempt to make the necessary proof while protecting from disclosure client confidences subject to the privilege. The use of sealing and protective orders, limited admissibility of evidence, orders restricting the use of testimony in successive proceedings, and, where appropriate, in camera proceedings, are but some of a number of measures that might usefully be explored by the trial courts as circumstances warrant. We are confident that by taking an aggressive managerial role, judges can minimize the dangers to the legitimate privilege interests the trial of such cases may present.

And to further emphasize the scope of its holding, the court raised “the ante on the in-house attorney contemplating a tort action” by articulating the in-house attorney’s burden of proof and possible ethical consequences of a failure to establish a claim:

The contested ethical requirement must be clearly established by the ethics code or statutory provision; disagreements over policy are not actionable. The plaintiff, of course, bears the burden of establishing the unequivocal requirements of the ethical norm at issue and that the employer’s conduct was motivated by impermissible considerations under a “but for” standard of causation. The ethical norm at issue must be one that is intended for the protection of the public at large; measures designed solely for the benefit of the attorney or the client will not suffice to support a retaliatory discharge claim. Moreover, an attorney who unsuccessfully pursues a retaliatory discharge suit, and in doing so discloses privileged client confidences, may be subject to State Bar disciplinary proceedings.

Id.

GTE Products Corp. v. Stewart (Massachusetts)

The Massachusetts Supreme Court allowed a claim of wrongful discharge in *GTE Products Corp. v. Stewart*, 653 N.E.2d 161 (Mass. 1995). Stewart had been sued by GTE to require him to return certain documents in his possession. He counterclaimed alleging that he was discharged for advising GTE “to warn the public about safety risks associated with the use of certain GTE products and his insistence that GTE comply with Federal law governing the disposal of hazardous waste.” *Id.* at 163.

Agreeing with *General Dynamics* and rejecting the logic of *Balla*, the court held that an in-house counsel may bring a claim of retaliatory discharge:

We would be reluctant to conclude that an employee, solely by reason of his or her status as an attorney, must be denied all protection from wrongful discharge arising from the performance of an action compelled by a clearly defined public policy of the Commonwealth. As was pointed out in a treatise critical of the decision in the Balla case, “[i]t is clear that there would have been a right of action had the employee not been a lawyer. It thus seems bizarre that a lawyer employee, who has affirmative duties concerning the administration of justice, should be denied redress for discharge resulting from trying to carry out those very duties” (footnote omitted). 1 G.C. Hazard & W.W. Hodes, Law of Lawyering § 1.16:206, at 477 (Supp.1994). We agree with the Supreme Court of California that public interest is better served if in-house counsel’s resolve to comply with ethical and statutorily mandated duties is strengthened by providing judicial recourse when an employer’s demands are in direct and unequivocal conflict with those duties.

Id. at 166. The Massachusetts Supreme Court added that where a retaliatory discharge claim is based on an employer’s demand that would require an attorney to violate a statutory duty or a rule of professional conduct, the claim will “only be recognized if it depends on “(1) explicit and unequivocal statutory or ethical norms (2) which embody policies of importance to the public at large in the circumstances of the particular case, and (3) the claim can be proved without any violation of the attorney’s obligation to respect client confidences and secrets.” *Id.* at 166-67.

As to proof without disclosing client confidences, the court explained that the situations permitting disclosure of client confidences under the ethical rules are “extremely limited”³⁰ and thus, the proof of retaliatory discharge, may be constrained:

While confidentiality concerns may to some degree be ameliorated by a trial court’s use of protective orders and other protective devices, the circumstances in which in-house counsel may pursue a claim for wrongful discharge will, of necessity, be limited by the broad obligation to guard client confidences. (Citation omitted.) Similarly, if the claim for wrongful discharge is one that might be brought by a nonattorney colleague ... it must be established that the claim can be proved without any violation of the attorney’s obligation to respect client confidences and secrets.

Id. at 167-68.³¹

Parker v. M & T Chemicals, Inc. (New Jersey)

In *Parker v. M & T Chemicals, Inc.*, 566 A.2d 215 (N.J. Super. Ct. 1989), Parker sued under a New Jersey “whistleblower” statute. He alleged that he was constructively discharged for protesting M & T’s decision to obtain trade secrets of competitors that were contained in transcripts of testimony that had been obtained by a former M & T employee. The transcripts were covered by a protective order in unrelated litigation but had been inadvertently released before the court in that matter realized it and sought their return. In the meantime, copies had reached this former employee who sold them to M & T. *Id.* at 217-18.

The whistleblower statute in question prohibited an employer from taking retaliatory action against an employee who “[d]iscloses or threatens to disclose to a supervisor or to a public body an activity, policy or practice of the employer that the employee reasonably believes is in violation of a law, or a rule or regulation promulgated pursuant to law,” or who “objects to, refuses to participate in any activity, policy or practice which the employee reasonably believes: (1) is in violation of a law, or a rule or regulation promulgated

³⁰ Model Rule 1.6 has been expanded to add additional bases for disclosure, in part in response to SEC obligations on public companies and their lawyers to make certain disclosures. See, Barkett, *Tattletales or Crimestoppers: Disclosure Ethics Under Model Rules 1.6 and 1.13* (ABA 2008). Model Rules 1.6(b)(1)-(3) and (6) provide: “(b) A lawyer may reveal information relating to the representation of a client to the extent the lawyer reasonably believes necessary: (1) to prevent reasonably certain death or substantial bodily harm; (2) to prevent the client from committing a crime or fraud that is reasonably certain to result in substantial injury to the financial interests or property of another and in furtherance of which the client has used or is using the lawyer’s services; (3) to prevent, mitigate or rectify substantial injury to the financial interests or property of another that is reasonably certain to result or has resulted from the client’s commission of a crime or fraud in furtherance of which the client has used the lawyer’s services; ... (6) to comply with other law or a court order.” State versions of these Model Rule provisions vary. For example, Massachusetts RPC 1.6(b)(1), (3) and (4) provide: “(b) A lawyer may reveal, and to the extent required by Rule 3.3, Rule 4.1(b), or Rule 8.3 must reveal, such information: (1) to prevent the commission of a criminal or fraudulent act that the lawyer reasonably believes is likely to result in death or substantial bodily harm, or in substantial injury to the financial interests or property of another, or to prevent the wrongful execution or incarceration of another; (3) to the extent the lawyer reasonably believes necessary to rectify client fraud in which the lawyer’s services have been used, subject to Rule 3.3 (e); (4) when permitted under these rules or required by law or court order.”

³¹ The Massachusetts Supreme Court still affirmed a summary judgment for GTE on the counterclaim because Stewart did not present any triable issue on his claim of constructive discharge: “we nonetheless conclude that the conditions under which Stewart alleges he would have been forced to work had he remained at GTE were not so intolerable that a reasonable person would have felt compelled to resign as general counsel. Stewart was not faced with a demotion, or a loss of job responsibilities or compensation. In addition, nothing in the evidence submitted in support of his opposition to the motion for summary judgment supports his assertion that remaining in his position would have required him to violate his ethical obligations as an attorney. He was not asked to further commit, or conceal any illegal or fraudulent acts.” *Stewart, supra*, 653 NE.2d at 169-70.

pursuant to law; (2) is fraudulent or criminal; or (3) is incompatible with a clear mandate of public policy concerning the public health, safety or welfare.” *Id.* at 219 (citing N.J.S.A. 34:19-3(a), (c)).

Defendant argued that Parker could not pursue a claim under the statute because (1) the New Jersey Supreme Court regulates the conduct of attorneys; (2) the New Jersey constitution would not permit Parker from pursuing a claim that would severely compromise the attorney-client relationship as defined by the rules of professional conduct adopted by the New Jersey Supreme Court; (3) a client has the absolute right to terminate a lawyer under the ethical rules, and (4) that right may not be diminished by a legislative enactment. *Id.* at 219.

Noting that only money damages were being sought, the New Jersey Supreme Court rejected the argument:

We conclude that our State’s Conscientious Employee Protection Act does not, in this claim for money damages only, require an implied exception for in-house attorneys to survive a constitutional challenge. In the context of the case before us, our interpretation of the Act neither compels an employer-client to accept an unwanted employee-attorney by preventing his discharge at will nor threatens to discourage an ethics or fee dispute complaint. Our affirmance here and our construction of the Act compels a retaliating employer to pay damages to an employee-attorney who is wrongfully discharged or mistreated for refusing to join a scheme to cheat a competitor or, indeed, for any reason which is violative of law, fraudulent, criminal, or incompatible with a clear mandate of New Jersey’s public policy concerning public health, safety or welfare. The employer is always free to show that the discharge was animated by incompetence, disloyalty, reduction in force, or any other legitimate reason.

Id. at 220.

The court also rejected a contention that the attorney-client privilege prohibiting disclosure of confidential communications “inherently conflicts with the assertion of a claim” under the whistleblower law. It explained that the commission of a crime or fraud is excluded from the attorney client privilege under New Jersey’s Evidence Rule 26(2)(a) and this “crime or fraud” exception is broadly interpreted under New Jersey law. *Id.* at 221.³²

Willy v. Coastal States Management Co. (Texas)

Willy v. Coastal States Management Co., 939 S.W.2d 193 (Tex. App. Ct. 1997) involved an in-house counsel who alleged he was fired in 1984 for refusing to falsify environmental reports or to participate in the “criminal concealment of violations of state and federal environmental laws. *Id.* at 194. On the threshold question of

³² The New Jersey Supreme Court referenced its earlier decision in *Fellerman v. Bradley*, 493 A.2d 1239 (N.J. 1985) in which the court explained that, “The ‘crime or fraud’ exception to the privilege represents a statutory recognition of a situation in which the purpose of the privilege would not be served by its enforcement. The exception encompasses a type of communication that is alien to the fundamental reasons that underlie the privilege. ... Thus, when a client seeks the aid of an attorney for the purpose of committing a fraud, a communication in furtherance of that design is not privileged,” and then concluded: “In this context our courts have generally given the term ‘fraud’ an expansive reading. ... The policy behind the protection of the relationship between client and attorney serves to limit the attorney-client privilege to situations in which lawful legal advice is the object of the relationship.” *Parker, supra*, 566 A.2d at 221 (quoting from *Fellerman*)

whether Willy could maintain a retaliatory discharge claim, the court rejected *Balla* and embraced the decisions of *General Dynamic*, *Stewart*, and *Parker*: “We hold that an attorney’s status as in-house counsel does not preclude the attorney from maintaining a claim for wrongful termination under *Sabine Pilot*³³ if the claim can be proved without any violation of the attorney’s obligation to respect client confidences and secrets.” *Id.* at 200.

But the court then held that Willy could not prove his claim without violating his ethical obligations to respect client confidences. The Model Code of Professional Responsibility was in effect at the time of his termination. The court said that Willy could make a disclosure to prevent Coastal from committing a crime in the future, but there was no provision in the Model Code that allowed Willy to use client confidences to prove he was wrongfully terminated. *Id.* at 200. The court added:

Willy has provided no authority, and we can find none, to support his assertion that he is entitled to reveal confidential information in order to prove his claim of wrongful termination. We have held that Willy can maintain a suit for wrongful termination only if his claim can be proved without any violation of his ethical obligation to respect client confidences and secrets. That obligation is defined by the Code, which contains no exception that allows the revelation of Coastal’s confidences and secrets in this context.

Id. at 200-01.³⁴

Burkhart v. Semitool, Inc. (Montana)

Burkhart v. Semitool, Inc., 5 P.3d 1031 (Mont. 2000) involved an alleged violation of Montana’s “Wrongful Discharge from Employment Act” (WDEA) among other claims. In part, Burkhardt alleged that he had been terminated for refusing to prepare fraudulent patent applications. The trial court held in part that Burkhardt was barred from suing defendant because he was hired to provide legal advice and proof of his claim would require disclosure of confidential information. After surveying the case law, the Montana Supreme Court reversed

³³ The Texas appellate court was referring to *Sabine Pilot Serv., Inc. v. Hauck*, 687 S.W.2d 733, 735 (Tex 1985) which allowed an exception to the employee at-will doctrine where the at-will employee is discharged solely because the employee refused to perform an illegal act.

³⁴ The court did explain that the “current Rules,” referring to the Texas Rules of Professional Conduct adopted in Texas in 1990, allowed a lawyer to reveal confidential information to the extent “necessary to enforce a claim or establish a defense” on behalf of a lawyer in a controversy between the lawyer and a client. Texas RPC 1.05 (c)(5). The court said that comments to this rule “suggest that this provision applies in situations in which a lawyer is attempting to collect a fee.” 939 S.W.2d at 200, n.6. Comment 15 states: “A lawyer entitled to a fee necessarily must be permitted to prove the services rendered in an action to collect it, and this necessity is recognized by sub-paragraphs (c)(5) and (d)(2)(iv). This aspect of the rule, in regard to privileged information, expresses the principle that the beneficiary of a fiduciary relationship may not exploit the relationship to the detriment of the fiduciary. Any disclosure by the lawyer, however, should be as protective of the client’s interests as possible.” Model Rule 1.6(b)(5), as noted earlier, uses the phrase “to establish a claim or defense” rather than “enforce a claim or establish a defense.” Willy’s administrative version of his whistleblower claim is the subject of a Fifth Circuit decision discussed below.

deciding that *General Dynamics* was better reasoned than *Balla* and, in any event, the WDEA required the court to recognize an in-house counsel's right to pursue a wrongful discharge claim.³⁵

The Montana Supreme Court then held that Montana RPC 1.6(b)(2), which is equivalent to Model Rule 1.6(b)(5), applies to a claim of wrongful termination.

[W]e conclude that the plain language of Montana's Rules of Professional Conduct, Rule 1.6, contemplates that a lawyer may reveal confidential attorney-client information, to the extent the lawyer reasonably believes necessary, to establish an employment-related claim against an employer who is also a client. We agree that "[a] lawyer ... does not forfeit his rights simply because to prove them he must utilize confidential information. Nor does the client gain the right to cheat the lawyer by imparting confidences to him."

Id. at 1041 (citation omitted).

Burkhart also provides guidance on ways to balance the rights of the lawyer and the former employer:

In balancing the need to protect confidential information and the attorney-client relationship, with an in-house counsel's right to maintain a claim against his employer-client, we note that a court and the respective parties may use several equitable measures at their disposal "designed to permit the attorney plaintiff to attempt to make the necessary proof while protecting from disclosure client confidences subject to the privilege," such as "the use of sealing and protective orders, limited admissibility of evidence, orders restricting the use of testimony in successive proceedings, and, where appropriate, in camera proceedings."

Id. at 1041 (citation omitted).

Crews v. Buckman Labs. Int'l Inc. (Tennessee)

Reversing lower courts, the Tennessee Supreme Court in *Crews v. Buckman Labs. Int'l Inc.*, 78 S.W.3d 852 (Tenn. 2002) also gave an affirmative answer to the question of whether an in-house associate general counsel can bring a common law claim of retaliatory discharge for reporting that the general counsel was engaged in the unauthorized practice of law.

The Tennessee Supreme Court explained that Tennessee recognizes a cause of action for retaliatory discharge when an at-will employee is terminated for exercising a statutory or constitutional right, or for any other reason that violates a clear public policy. *Id.* at 858. After surveying the case law following *Balla* on the one hand and *General Dynamics* on the other, the court agreed with the reasoning of *General Dynamics*.

³⁵ While the Montana Supreme Court acknowledged that a client has the right to terminate a lawyer where the lawyer is an independent contractor, that same principle does not apply to an employer-in-house counsel relationship: "[I]n the traditional attorney-client relationship where the attorney merely acts as an independent contractor for his or her client, it is important that a client be able to terminate the relationship, regardless of the reason, without being liable for breach of the fee agreement. However, the 'universal rule' does not apply in an attorney-client relationship where the attorney is an 'employee' of the client, because in that context the client, by making his or her attorney an employee, has avoided the traditional attorney-client relationship and granted the attorney protections that do not apply to independent contractors, but do apply to employees, including the WDEA." 5 P.3d at 493-494.

The very purpose of recognizing an employee's action for retaliatory discharge in violation of public policy is to encourage the employee to protect the public interest, and it seems anomalous to protect only non-lawyer employees under these circumstances. Indeed, as cases in similar contexts show, in-house counsel do not generally forfeit employment protections provided to other employees merely because of their status or duties as a lawyer.

Id. at 860 (footnote omitted). The court was also not persuaded that ethical rules were sufficient to protect the public interest, one of the principles underlying *Balla's* holding:

Ultimately, sole reliance on the mere presence of the ethical rules to protect important public policies gives too little weight to the actual presence of economic pressures designed to tempt in-house counsel into subordinating ethical standards to corporate misconduct. Unlike lawyers possessing a multiple client base, in-house counsel are dependent upon only one client for their livelihood.

...

The pressure to conform to corporate misconduct at the expense of one's entire livelihood, therefore, presents some risk that ethical standards could be disregarded. Like other non-lawyer employees, an in-house lawyer is dependent upon the corporation for his or her sole income, benefits, and pensions; the lawyer is often governed by the corporation's personnel policies and employees' handbooks; and the lawyer is subject to raises and promotions as determined by the corporation. In addition, the lawyer's hours of employment and nature of work are usually determined by the corporation.

Id. at 860-61.

The Tennessee Supreme Court rejected another premise underlying *Balla*—that allowing a lawyer to sue for wrongful discharge would have “a chilling effect upon the attorney-client relationship and would impair the trust between an attorney and her client.” The court explained:

This rationale appears to be premised on one key assumption: the employer desires to act contrary to public policy and expects the lawyer to further that conduct in violation of the lawyer's ethical duties. We are simply unwilling to presume that employers as a class operate with so nefarious a motive, and we recognize that when employers seek legal advice from in-house counsel, they usually do so with the intent to comply with the law.

Id. at 861.³⁶

³⁶ The Tennessee Supreme Court also rejected *Balla's* assertion that allowing a retaliatory discharge remedy would shift the costs of adherence to ethics' rules from the in-house counsel to the employer. “The very purpose of permitting a claim for retaliatory discharge in violation of public policy is to encourage employers to refrain from conduct that is injurious to the public interest. Because retaliatory discharge actions recognize that it is the employer who is attempting to circumvent clear expressions of public policy, basic principles of equity all but demand that the costs associated with such conduct also be borne by the employer.” 78 S.W.3d at 862

Finally, the Tennessee Supreme Court commented on the use of confidential information and what it regarded as the unwise limitations placed on such use by *General Dynamics* and *Stewart*.³⁷ At the time Tennessee was still using the Model Code. The Tennessee Bar later adopted what became Model Rule 1.6(b)(5), but the Tennessee Supreme Court advanced that outcome in its holding:

We agree with the approach taken by the Model Rules, and pursuant to our inherent authority to regulate and govern the practice of law in this state, ... we hereby expressly adopt a new provision in Disciplinary Rule 4-101(C) to permit in-house counsel to reveal the confidences and secrets of a client when the lawyer reasonably believes that such information is necessary to establish a claim or defense on behalf of the lawyer in a controversy between the lawyer and the client. This exception parallels the language of Model Rule of Professional Conduct 1.6(b)(2), and we perceive the adoption of a similar standard to be essential in protecting the ability of in-house counsel to effectively assert an action for discharge in violation of public policy. Nevertheless, while in-house counsel may ethically disclose such information to the extent necessary to establish the claim, we emphasize that in-house counsel “must make every effort practicable to avoid unnecessary disclosure of [client confidences and secrets], to limit disclosure to those having the need to know it, and to obtain protective orders or make other arrangements minimizing the risk of disclosure.” Model Rule 1.6 Comment 19.

Id. at 864 (citation omitted). The court then analyzed the complaint and concluded that it alleged a clear public policy evidenced by the Tennessee Code of Professional Responsibility and sufficiently alleged that plaintiff was discharged because of her adherence to her ethical duties under the Code. *Id.* at 865-66. As part of its remand, the court reminded counsel of the obligation to minimize disclosures: “[T]he lawyer must make every effort practicable to avoid unnecessary disclosure of the employer’s confidences and secrets; to limit disclosure to those having the need to know the information; and to obtain protective orders or make other arrangements minimizing the risk of unnecessary disclosure.” *Id.* at 866.

Alexander v. Tandem Staffing Solutions (Florida)

Alexander v. Tandem Staffing Solutions, 881 So.2d 607 (Fla. Dist. Ct. App. 2004) involved a state whistleblower statute. The court of appeal set forth the key facts:

Before she was fired, Alexander consulted with attorney Stuart Rosenfeldt concerning her fear of retaliation by Tandem. With Rosenfeldt, she discussed the ongoing situation at Tandem. Rosenfeldt assisted Alexander in preparing a letter dated September 8, 2002 to members of Tandem’s board of directors. The letter opined that a company officer had violated federal law, detailed tales of retaliation and cover-up, and described the company’s potential liability. Alexander signed the letter in her capacity as general counsel. Arguably, the letter was an

³⁷ “If we perceive any shortcomings in the holdings of *General Dynamics* and *Stewart*, it is that they largely take away with one hand what they appear to give with the other. Although the courts in these cases gave in-house counsel an important right of action, their respective admonitions about preserving client confidentiality appear to stop just short of halting most of these actions at the courthouse door. With little imagination, one could envision cases involving important issues of public concern being denied relief merely because the wrongdoer is protected by the lawyer’s duty of confidentiality. Therefore, given that courts have recognized retaliatory discharge actions in order to protect the public interest, this potentially severe limitation strikes us as a curious, if not largely ineffective, measure to achieve that goal.” 78 S.W. 3d at 863.

attempt to comply with the requirement of section 448.102(1), Florida Statutes (2003) that the employee, “in writing,” bring an “activity, policy, or practice to the attention of a supervisor or the employer.”

Id. at 608. As noted above, the court of appeal reversed an order disqualifying Rosenfeldt: “Here, Alexander’s disclosure of matters to Rosenfeldt and the September 8th letter were reasonably necessary to her whistleblower claim, so that the matters fell under rule 4-1.6(c)(2), making their disclosure authorized.” *Id.* at 611.

Spratley v. State Farm Mut. Auto Ins. Co. (Utah)

In *Spratley v. State Farm Mut. Auto Ins. Co.*, 78 P.3d 603 (Utah 2003), Spratley was an in-house lawyer for State Farm who, with a co-plaintiff, Pearce, represented State Farm and State Farm insureds. They alleged that State Farm required them to violate their ethical duties as lawyers in that representation, and punished them when they did not do so. *Id.* at 606. They resigned, keeping copies of a number of allegedly confidential documents. They later sued State Farm on a number of common law theories and appended to their complaint some of the allegedly confidential documents. State Farm filed a motion for a preliminary injunction and a protective order with respect to the confidential documents and moved to disqualify plaintiffs’ counsel. The trial court granted both motions.

As discussed earlier the motion to disqualify counsel was reversed by the Utah Supreme Court. The motion to return the documents was also reversed. The Utah Supreme Court held that Spratley and Pearce’s lawsuit represented a “claim” under Utah’s RPC 1.6(b)(3), which is identical to Model Rule 1.6(b)(5), and thus confidential information could be disclosed “to establish a claim.” The court relied on *Crews* and *Burkhart*, *supra*, as well as Oregon Ethics Opinion 1994-136, and rejected the reasoning in *Balla*, *supra*. *Id.* at 608-09.

The court cautioned, however, that former in-house counsel and trial courts “must exercise great care in disclosing confidences.” *Id.* at 609. Using the list identified in *General Dynamics*, the court said that the tools available to the trial court include sealing and protective orders, limited admissibility of evidence, orders restricting the use of testimony in successive proceedings, and where appropriate, *in camera* proceedings. *Id.* at 610. The court then explained that these tools combined with counsel’s duty to minimize disclosures provided sufficient confidentiality safeguards:

The liberal use of these tools, and others inherent in a trial court’s authority to govern the conduct of proceedings, is a prudent and sufficient safeguard against overbroad disclosure. We note, however, that it remains the attorney’s duty to minimize disclosures. While trial courts possess broad protective powers, any disclosures made by the attorney that are not reasonably necessary to the claim may still subject that attorney to professional discipline or litigation sanctions; a trial court’s failure to prevent improper disclosure will not be a safe harbor for former in-house counsel who carelessly disclose more than is reasonably necessary to the claim.

Id.

Weider v. Skala (New York)

The court in *Wise, supra*, made no mention of *Weider v. Skala*, 609 N.E.2d 105 (N.Y. 1992). There, the New York Court of Appeals allowed an associate in a law firm to maintain an implied-in-law contract action against a law firm that terminated the associate. The associate alleged he was terminated because of his insistence that the firm report professional misconduct allegedly committed by another associate. The New York Court of Appeals held that the employee-at-will doctrine was not applicable under these circumstances:

[P]laintiff's performance of professional services for the firm's clients as a duly admitted member of the Bar was at the very core and, indeed, the only purpose of his association with defendants. Associates are, to be sure, employees of the firm but they remain independent officers of the court responsible in a broader public sense for their professional obligations. Practically speaking, plaintiff's duties and responsibilities as a lawyer and as an associate of the firm were so closely linked as to be incapable of separation. It is in this distinctive relationship between a law firm and a lawyer hired as an associate that plaintiff finds the implied-in-law obligation on which he founds his claim.

We agree with plaintiff that in any hiring of an attorney as an associate to practice law with a firm there is implied an understanding so fundamental to the relationship and essential to its purpose as to require no expression: that both the associate and the firm in conducting the practice will do so in accordance with the ethical standards of the profession. Erecting or countenancing disincentives to compliance with the applicable rules of professional conduct, plaintiff contends, would subvert the central professional purpose of his relationship with the firm—the lawful and ethical practice of law.

Id. at 635-36. Later, the court used language that could be applied to an in-house counsel where a termination falls into the category of “erecting a disincentive to compliance with applicable rules of professional conduct”:

Defendants, a firm of lawyers, hired plaintiff to practice law and this objective was the only basis for the employment relationship. Intrinsic to this relationship, of course, was the unstated but essential compact that in conducting the firm's legal practice both plaintiff and the firm would do so in compliance with the prevailing rules of conduct and ethical standards of the profession. Insisting that as an associate in their employ plaintiff must act unethically and in violation of one of the primary professional rules amounted to nothing less than a frustration of the only legitimate purpose of the employment relationship.

Id. at 637-38. This case, however, did not involve disclosure of client confidences, so it must be read with that context in mind.

Meadows v. Kindercare Learning Ctrs., Inc., (Oregon)

In *Meadows v. Kindercare Learning Ctrs., Inc.*, 2004 WL 2203299 (D. Or. 2004), a former in-house counsel alleged she was wrongfully discharged under Oregon's exception to the employment-at-will doctrine because she “resisted and opposed defendants' illegal and discriminatory employment practices.” *Id.* at *1-2. A magistrate judge issued a report and recommendation to dismiss the claim. In the appeal to the district court, defendants argued that “permitting plaintiff to go forward with her claim would injure, not protect, the public

interest in preserving the attorney-client privilege. Because the gravamen of her claim is that she was terminated based on the advice she was hired to give, defendants argue that litigating the claim would necessarily require disclosure of defendants' confidences." In response, plaintiff argued that it was "premature to determine the range of evidence she will offer and whether or how it will implicate the attorney-client privilege." *Id.* at *2.

Defendants conceded that Oregon courts would permit a wrongful discharge claim by in-house counsel as long as there was no breach of the attorney-client privilege. *Id.* With that concession, the only issue for the district court was whether the matter could be managed in a way to protect client confidences. Citing *General Dynamics* for the proposition that such a decision could not be made until after discovery, the district court held:

The thrust of this case is plaintiff's wrongful termination for protesting and refusing to implement defendants' illegal employment practices, not defendants' alleged illegal employment acts. The district court has equitable measures at its disposal designed to permit an attorney plaintiff to attempt to make the requisite proof while protecting from disclosure client confidences. Accordingly, I reject Judge Hubel's recommendation that the wrongful termination claim be dismissed at this stage of the proceeding.

Id. at *3.

O'Brien v. Stolt-Nielsen Transportation Group, Ltd. (Connecticut)

A later opinion in *O'Brien v. Stolt-Nielsen Transportation Group, Ltd.* applying New York's RPC to O'Brien was discussed above. However, in this opinion, 838 A.2d 1076 (Conn. Super. Ct. 2003), O'Brien's wrongful discharge claim was upheld despite arguments that a former in-house counsel should not be allowed to sue his former employer. O'Brien alleged "that he was ethically barred from rendering legal services or advice that would cause or aid ongoing criminal conduct and that he would be criminally liable if he continued in his management position with knowledge that SNTG's business involved conduct in violation of United States and international law." This allegation was sufficient to "establish that his resignation was tantamount to a discharge." *Id.* at 1083.

The court surveyed the case law and sided with the *General Dynamics*' approach:

This court sees no rational basis for denying an employee-attorney the right available to other employees to sue for wrongful or constructive discharge when the suit is premised on protecting a well defined public interest. This conclusion is based in part on the understanding that an in-house attorney may, as alleged here, be professionally obligated to resign his position, a burden not often shared by non-attorney employees. The potentially higher price an attorney-employee may have to pay argues for providing them with at least the same remedy available to other employees. This consideration of course runs counter to the position of the Illinois Supreme Court in Balla which found that the duty to resign alone was sufficient protection to the public policy. While recognizing that it is the policy, not the person's job, which the tort of wrongful discharge was created to protect; see General Dynamics Corporation v. Superior Court, supra, 7 Cal.4th at 1181, 876 P.2d at 497; one must realize that the two are not necessarily separable and it is perfectly logical to conclude that

providing some limited recourse can only strengthen an in-house attorney's resolve to maintain his professional obligations, rather than silently conform. This can only enhance the protection of the public interest.

Id. at 1084.

Kidwell v. Sybaritic, Inc. (Minnesota)

Kidwell v. Sybaritic, Inc., 749 N.W.2d 855 (Minn. Ct. App. 2008) was another statutory whistleblower claim. Kidwell was the general counsel of Sybaritic. He was discharged, sued, and convinced a jury that his termination was unlawful. Sybaritic appealed arguing first that an in-house attorney may never sue his or her employer under the state whistleblower law. Not surprisingly, Sybaritic cited *Balla* in support. *Id.* at 857. Citing *Crews*, *General Dynamics*, and *Parker* among other cases, the court adopted the “majority view” that “appears to reject the attorney-client defense and to permit such claims, though sometimes with the proviso that in-house attorneys may pursue such claims so long as they do not run afoul of the duty of confidentiality (a proviso that potentially could be applied as a bar).” *Id.* at 863-64. While Kidwell was allowed to bring the lawsuit, the court then held that he could not show that he was engaged in protected conduct³⁸ since it was his duty as in-house counsel to report violations to fulfill the duties of his position—in other words he was not blowing the whistle on anyone; he was doing his job.³⁹ The Minnesota Supreme Court affirmed this decision on the same basis. *Kidwell v. Sybaritic, Inc.*, 784 N.W.2d 220 (Minn. 2010).⁴⁰

Federal Case Law: Allowing Lawyers to Use Confidential Information to Advance Claims With Appropriate Protective Measures on Disclosure

Beyond those federal court decisions already discussed, there are other decisions of note that add to the complexity of the topic of lawyer self-defense.

Kachmar v. SunGard Data Systems, Inc., 109 F.3d 173 (3d Cir. 1997) was a Title VII action for retaliatory discharge and sex discrimination brought a former in-house counsel. The district court had dismissed the

³⁸ Minn. Stat. § 181.932, subdiv. 1(1) provides: “An employer shall not discharge, discipline, threaten, otherwise discriminate against, or penalize an employee ... because: (1) the employee ... in good faith, reports a violation or suspected violation of any federal or state law or rule adopted pursuant to law to an employer or to any governmental body or law enforcement official.”

³⁹ The court explained that he was “the company’s general counsel, a position typically (though not always) vested with overall responsibility for all legal matters.” The email that he sent that resulted in his termination (referred to in the opinion as the “difficult-duty email”) was sent to “the company’s top executives, including the owner and president, who was his direct supervisor.” Kidwell had a written employment agreement that stated that his duties included “responsibility and decisions as to all corporate legal matters, and the general legal administration of activities at Sybaritic.” Kidwell “apparently was the only attorney employed by the company.” Finally, Kidwell’s email and testimony doomed his position: “More specifically, Kidwell’s own words demonstrate conclusively that he wrote and sent the difficult-duty e-mail to fulfill his job responsibilities. In the e-mail itself, he wrote, ‘I cannot fail to write this e-mail without also failing to do my duty to the company and to my profession as an attorney. That I will not do.’ And at trial, he testified that he sent the difficult-duty e-mail ‘[b]ecause I hoped that we could pull this company back into compliance by enlisting some of the other members of management, and as the person responsible for the legal affairs of the company, that’s what I had to do.’” 749 N.W. 2d at 866-67.

⁴⁰ The Minnesota Supreme Court concluded: “In sum, the jury received the ‘Difficult Duty’ email and Kidwell’s testimony about the email. This evidence, which came from the party with the burden of proof and which is uncontradicted, is ‘practically conclusive’ that Kidwell sent the email because he felt it was his job to do so. (Citation omitted.) Indeed, Kidwell said at trial that the type of advice he gave in the ‘Difficult Duty’ email was ‘what lawyers do.’ We agree. When in-house counsel sends his client written advice in order to ‘pull’ that client ‘back into compliance,’ as Kidwell said he did in this case, the lawyer is not sending a report for the purpose of exposing an illegality and the lawyer is not blowing the whistle.” 784 N.W. 2d at 231 (footnote omitted).

complaint so the factual recitation in the opinion came from the allegations of the complaint. Plaintiff alleged that she was terminated because of “campaigning on women’s issues” and that efforts to find employment thereafter were throttled by defendant’s statements to a prospective employer about Kachmar’s plans to sue defendant. *Id.* at 176-77.

After deciding that the district court erred substantively in dismissing the Title VII claim, *id.* at 178-79, the court of appeals then considered an alternative argument advanced by SunGard to affirm the dismissal: “that maintenance of Kachmar’s retaliatory discharge action would improperly implicate communications subject to the attorney-client privilege and/or information relating to Kachmar’s representation of SunGard.” *Id.* at 179.

The court of appeals rejected the argument relying on case law that supported Kachmar’s ability to bring a Title VII claim for retaliatory discharge,⁴¹ and the fact that the statute applies to all “persons” and contains no exclusion for persons who are in-house counsel.

The court of appeals also rejected an argument that Pennsylvania RPC 1.6(c)(3), allowing disclosure of confidential information to “establish a claim or defense” does not, based on comments to the rule, apply to affirmative claims but only to defense of a claim or to a claim to collect fees. “[T]he Rules do not address affirmative claims for relief under a federal statute and thus we believe they are at best inconclusive on the issue SunGard raises.” *Id.* at 179-80.

The court of appeals also rejected reliance on *Balla* and *Herbster* both on policy grounds and because of procedural tools available to protect client confidences. As to the former, the court of appeals explained: “The federal courts that have addressed the question have cited the important public policies underlying federal antidiscrimination legislation and the supremacy of federal laws in determining that federal anti-discrimination statutes take precedence over the at-will discharge principle.” *Id.* at 181 (citations omitted).

As to the latter, the court of appeals concluded:

In balancing the needed protection of sensitive information with the in-house counsel’s right to maintain the suit, the district court may use a number of equitable measures at its disposal “designed to permit the attorney plaintiff to attempt to make the necessary proof while protecting from disclosure client confidences subject to the privilege.” General Dynamics, 32 Cal.Rptr.2d at 18, 876 P.2d at 504. Among those referred to in General Dynamics were “[t]he use of sealing and protective orders, limited admissibility of evidence, orders restricting the use of testimony in successive proceedings, and, where appropriate, in camera proceedings.” Id. Admittedly, this may entail more attention by a judicial officer than in most other Title VII actions, but we are not prepared to say that the trial court, after assessing the sensitivity of the information offered at trial, would not be able to draft a procedure that permits vindicating Kachmar’s rights while preserving the core values underlying the attorney-client

⁴¹ The court of appeals cited a number of district court decisions but focused on one court of appeals decision, *Jones v. Flagship Int’l*, 793 F.2d 714 (5th Cir. 1986) *cert. denied* 479 U.S. 1065 (1987): “In the only federal appeals court case brought to our attention, the court stated, ‘In assuming her position as [in-house attorney, plaintiff] neither abandoned her right to be free from discriminatory practices nor excluded herself from the protections of [Title VII].’” 109 F.3d at 179 (citing *Jones*, 793 F.2d at 726).

relationship. It follows that we cannot affirm the dismissal of Kachmar's retaliatory discharge claim at this preliminary stage on the alternative grounds suggested by SunGard.

Id. at 182.

Lewis v. Nationwide Mut. Ins. Co., 2003 WL 1746050 (D. Conn. March 18, 2003) recognized that Connecticut's common law allows an employee terminated for violating public policy to avoid the freedom otherwise available to an employer to terminate an employee at-will. Plaintiff was employed by defendant but represented insureds. He claimed he was terminated when he refused to let defendant interfere with the exercise of his professional judgment on behalf of insureds in violation of the Connecticut Rules of Professional Conduct. Defendant argued the RPC do not provide a "clear public policy mandate in the employment context." But the district court disagreed:

The Rules have been approved and adopted by the judges of the Superior Court to regulate the professional conduct of members of the Bar. It would be surprising if the Supreme Court were to categorically reject them as a source of public policy in the employment context, particularly when lawyers are increasingly employed full-time by corporations.

...

Plaintiff alleges explicitly, or by implication, that Nationwide knew he owed this duty of loyalty to insureds, yet repeatedly pressured him to violate it, then retaliated against him because he refused. Loyalty is an essential element of the attorney-client relationship and, as such, a vital part of our system. Accordingly, I conclude that the Connecticut Supreme Court would recognize the public policy violation asserted here as sufficient to support a wrongful discharge cause of action.

Id. at *2.

Defendant also contended that "plaintiff could have vindicated any legitimate public policy concerns by filing a grievance against another in-house lawyer who allegedly pressured him to violate his professional responsibilities, and by filing a complaint of unfair insurance practices with the Insurance Commissioner." *Id.* at *1. The district court also rejected these arguments:

Plaintiff argues persuasively that neither of Nationwide's suggested alternatives is adequate. With respect to his individual interests, it appears to be undisputed that neither alternative could provide him with compensation for the loss of his longtime position with the Company. No Connecticut case requires an employee or the public to accept as a substitute for wrongful discharge litigation a proceeding that fails to offer the employee even the hope of at least some recovery. With regard to the public interest, a grievance would be inadequate because it would be concerned with the alleged pressure exerted by the other lawyer, not the alleged wrongdoing of Nationwide.

Id. at *3 (citation omitted).

Willy v. Administrative Review Board, 423 F.3d 483, 501 (5th Cir. 2005) is another chapter in the *Willy* litigation filed in state court in Texas, *supra*. Willy had filed a complaint in 1984 with the Department of

Labor (DOL) alleging that his employer had violated whistleblower provisions of several environmental laws when it fired him for writing a report on environmental audits done of facilities operated by Belcher, a subsidiary of his employer, Coastal. Coastal management felt that Willy's audit report was "inflammatory." *Id.* at 486-87. Willy prevailed before the Wage and Hour Division (WHD) of the DOL. Coastal obtained a hearing before a DOL administrative law judge (ALJ) to review the WHD's determination. Willy sought to introduce the Belcher audit report. Coastal refused to produce it despite an order from the ALJ that it do so. The ALJ recommended that Willy enforce the ALJ's order in federal court.

Before Willy could start that action, however, the ALJ recommended dismissal of Willy's complaint based on an opinion issued by the Fifth Circuit, which addressed a whistleblower provision under a different law that resulted in dismissal of a whistleblower claim made under that law. The ALJ, however, felt that the language of this other law was similar to the whistleblower language of the environmental laws under which Willy was claiming and thus the result—dismissal—had to be the same. *Id.* at 488.

The Secretary of the DOL rejected the ALJ's dismissal recommendation and also rejected a claim by Coastal that Willy could not make a whistleblower claim because in-house attorneys should be excluded from statutory protection. *Id.*

On remand to the ALJ, Coastal refused to produce the Belcher audit report arguing that the attorney-client privilege insulated the document from production. Willy, however, had two draft versions of the audit report in his possession. The ALJ admitted both of them and found that Willy was fired in part because of engaging in protected conduct, but then refused to grant relief because of other conduct of Willy. *Id.* The Secretary affirmed the admission of the documents and the conclusion but not the failure to provide relief and remanded the case to the ALJ to calculate back pay. *Id.* at 489. On remand, Willy was awarded \$977,513.44 in damages and \$68,270 in attorneys' fees and expenses. *Id.*

Both Willy and Coastal appealed to the Administrative Review Board, which, by then, had replaced the DOL Secretary as the administrative appellate forum. In February 2004, the ARB reversed the decision. It held that federal law governed the issue of the application of the attorney-client privilege and there was no exception to the privilege that permitted admission of the Belcher audit report. The ARB added that under Texas law, the analysis would be the same. *Id.*

Willy had a parallel action that was proceeding in state court. In a 1996 decision, as discussed above, the Texas Court of Appeals held that Willy could bring a wrongful discharge action but could not use attorney-client information to prove the claim. 939 S.W.2d 193 at 194. This decision was denied review by the Texas Supreme Court. *Id.* at 490.

In this posture, the Fifth Circuit considered Willy's petition to review the ARB's decision and reversed. After explaining that federal, not state, law controls issues of privilege, the Texas Court of Appeals relied on Model Rule 1.6(b)(5) in determining that Willy could use privileged information to support his claim:

The [] language from the ARB's final order—that the self-defense exception is limited to a breach of duty a lawyer owes a client—is a strained interpretation of the language of the exception itself. As noted the Model Rules specifically provide that "[a] lawyer may reveal ... information [relating to representation of a client] to the extent the lawyer reasonably believes necessary ... to establish a claim or defense on behalf of the lawyer in a controversy between the lawyer

and the client” That a lawyer may assert a “claim” against his client means that the client breached a duty to the lawyer, not the opposite, as the ARB held.

Id. at 500.⁴²

The court of appeals also rejected erroneous interpretations by the ARB of the First Circuit’s decision in *Siedle* (discussed below) and the Third Circuit’s decision in *Kachmar*; and embraced its own earlier decision in *Doe v. A. Corp.*, 709 F.2d 1043 *reh’g denied*, 717 F.2d 1399 (5th Cir. 1983)⁴³ in providing this summary of its holding:

In sum, neither the current Secretary nor Coastal has directed us to any case that can be stretched to stand for the broad proposition espoused by the ARB, that the attorney-client privilege is a per se bar to retaliation claims under the federal whistleblower statutes, i.e., that the attorney-client privilege mandates exclusion of all documents subject to the privilege. As we observed in Doe, “[a] lawyer ... does not forfeit his rights [as an employee] simply because to prove them he must utilize confidential information,” and we are disinclined to hold that he has. The ARB seriously misinterpreted our-and other circuits’-case law treating the attorney-client privilege. There are ample opportunities-such as those adverted to in both Doe and Kachmar-to protect privileged information such as that which Coastal now seeks to protect. The ALJ followed these procedures, and we find no error in his doing so.

Id. at 500.⁴⁴

Hoffman v. Baltimore Police Dept., 379 F. Supp. 2d 778 (D. Md. 2005) involved an attorney employed by the Baltimore Police Department who was later terminated, he said, based on his race. In a motion to dismiss, defendants argued that the suit had to be dismissed because privileged attorney-client information would have to be disclosed to pursue the claim. Defendants cited *Balla* and related Illinois decisions in support.

The district court immediately noted that Maryland’s RPC 1.6 allowed an attorney to disclose client information to “establish a claim or defense” in contrast with the Illinois rule which just allowed disclosure to defend against an accusation of wrongful conduct. *Id.* at 782. Citing *Spratley*, *Crews*, and *Kachmar*, the district court rejected the claim, but said that it would employ safeguards as necessary to address disclosure of confidential information. *Id.* at 783-84. The district court also denied a motion to seal the entire record that had been filed by defendants. Defendants had provided to the Equal Employment Opportunity Commission the same documents that it faulted plaintiff for submitting to the court, so the district court held that if these

⁴² The court of appeals also cited ABA Formal Ethics Opinion 01-424 in support of its interpretation. 423 F.3d at 500.

⁴³ *Doe* was discussed earlier and was cited in ABA Formal Ethics Opinion 01-424 regarding safeguards that could be used to minimize disclosure of privileged information.

⁴⁴ The court of appeals acknowledged the procedural posture of the matter in cabining its holding: “We are fully cognizant of the procedural posture of this case, viz., the claim of a former in-house counsel against his former employer before an ALJ only, yet no party has cited any law to us-and we have found none-that allows the party asserting the attorney-client privilege, to refuse to show allegedly privileged documents to a court. Indeed, when a party asserts that documents are privileged, the court must in the first instance inspect and review them to determine the applicability of the privilege. What is not before us is a suit involving a jury and public proceedings, so we leave that possibility for another day. Today, we merely hold that no rule or case law imposes a *per se* ban on the offensive use of documents subject to the attorney-client privilege in an in-house counsel’s retaliatory discharge claim against his former employer under the federal whistleblower statutes when the action is before an ALJ.” 423 F.2d at 500-01.

documents were privileged, the privilege was waived. It did remind plaintiff, however, “that he must continue to exercise his professional judgment and the utmost care in protecting any confidences of his former employer that might fall outside of the scope of the waiver.” *Id.* at 785.

In *Heckman v. Zurich Holding Co. of America*, 242 F.R.D. 606 (D. Kan. 2007), the court addressed a motion for a protective order and a motion for judgment on the pleadings. Both motions were brought by defendant in response to a former in-house counsel’s complaint for retaliatory discharge and defamation.

The motion for judgment on the pleadings was based on the disclosure of confidential information that necessarily would occur if plaintiff were allowed to proceed with her claim. After surveying the case law, the district court concluded that the motion should be denied: “In the light of the overwhelming authority which permits in-house counsel to sue for retaliatory discharge under state law, the Court does not believe that Kansas courts would prohibit plaintiff from maintaining her whistleblower claim under Kansas law.” *Id.* at 610.

The district court also rejected defendant’s argument that, based on a comment to the rule, Kansas RPC 1.6(b)(3), which follows Model Rule 1.6(b)(5), is limited to fee disputes. The district court considered the drafting history, which supported the opposite conclusion:

Although the comment mentions only fee disputes, it does not expressly limit the claim or defense exception to such actions. Indeed, the principle expressed in the comment that a client should not be permitted to exploit an attorney’s fiduciary duty applies beyond mere fee disputes. Moreover, the history of Rule 1.6 undermines defendants’ argument that Rule 1.6 applies only to fee disputes. Rule 1.6 is taken from the Model of Rules of Professional Conduct (“Model Rules”), which the Kansas Supreme Court adopted as the Kansas Rules of Professional Conduct effective March 1, 1988. See Prefatory Rule, Kan. Rules of Prof’l Conduct; Gillespie v. Seymour, 272 Kan. 1387, 1392, 39 P.3d 61, 64 (2002). In promulgating the Model Rules, the American Bar Association (ABA) undertook to expand the claim or defense exception to the duty of confidentiality which had been expressly limited to fee disputes in the Model Code of Professional Responsibility (“Model Code”)-the ABA’s predecessor to the Model Rules. See Annotated Model Rules of Professional Conduct, Rule 1.6, Model Code Comparison 68 (4th ed.1999) (Disciplinary Rule 4-101(c)(4) of Model Code provides that lawyer may reveal confidences to establish or collect his fee; claim or defense exception of Model Rules “enlarges the exception to include disclosure of information relating to claims by the lawyer other than for the lawyer’s fee”).

Id. at 611. Relying also on ABA Formal Opinion 01-424, the district court held that plaintiff was entitled to “reveal confidential information” to the extent “necessary to establish” her claim. *Id.* The district court also granted the motion for a protective order that was not objected to by plaintiff except for one paragraph that

would have permitted defendant to selectively waive the privilege as to some information without waiving the privilege as to third parties with respect to that information. The court sustained that objection. *Id.* at 612.⁴⁵

WHISTLEBLOWER PROTECTION UNDER SARBANES OXLEY

What might future lawyer-client fallout decisions look like? They might involve retaliatory discharges prohibited by the Sarbanes Oxley Act (SOX).

Under Section 806 of SOX, there is protection afforded to whistleblowers from retaliatory acts of an employer (discharge, demotion, suspensions, threats, harassment, or discrimination in any other manner) because of a lawful act “done by the employee”

(1) to provide information, cause information to be provided, or otherwise assist in an investigation regarding any conduct which the employee reasonably believes constitutes a violation of section 1341, 1343, 1344, or 1348, any rule or regulation of the Securities and Exchange Commission, or any provision of Federal law relating to fraud against shareholders, when the information or assistance is provided to or the investigation is conducted by—

(A) a Federal regulatory or law enforcement agency;

(B) any Member of Congress or any committee of Congress; or

(C) a person with supervisory authority over the employee (or such other person working for the employer who has the authority to investigate, discover, or terminate misconduct); or

(2) to file, cause to be filed, testify, participate in, or otherwise assist in a proceeding filed or about to be filed (with any knowledge of the employer) relating to an alleged violation of section 1341, 1343, 1344, or 1348, any rule or regulation of the Securities and Exchange Commission, or any provision of Federal law relating to fraud against shareholders.

A person who alleges discharge or discrimination under Section 1514A files a complaint with the Secretary of Labor.⁴⁶

Section 1514A(b)(2) specifies that Section 1514A claims are governed by the procedures applicable to whistleblower claims brought under 49 U.S.C. § 42121(b). Section 42121(b)(2)(B) sets forth a burden-shifting

⁴⁵ The district court explained in part: “Because Rule 1.6 adopts broad language which contemplates disclosure of confidential information in a variety of possible claims by an attorney against her client, the Court disagrees with defendants’ assertion that this case presents a “special, narrow, factual scenario [involving] an in-house attorney.” Defendants are simply faced with a strategic choice concerning the scope and direction of their defense. Even if the Court were to perceive some level of fundamental unfairness in the position of the parties, a selective waiver provision would not promote fairness in this proceeding.” 242 F.R.D. at 612.

⁴⁶ The complaint is filed with the Occupational Safety and Health Administration. An OSHA Fact Sheet on filing complaints can be found at <http://www.osha.gov/Publications/osha-factsheet-sox-act.pdf>. It begins with this preamble: “Employees who work for publicly traded companies or companies that are required to file certain reports with the Securities and Exchange Commission (SEC) are protected from retaliation for reporting alleged mail, wire, bank, or securities fraud; violation(s) of SEC rules and regulations; or violation(s) of Federal law relating to fraud against shareholders.”

procedure by which a plaintiff is first required to make out a prima facie case of retaliatory discrimination. If the plaintiff meets this burden, the employer must demonstrate “by clear and convincing evidence that the employer would have taken the same unfavorable personnel action in the absence of” the plaintiff’s protected activity. Under, 18 U.S.C. § 1514A(b)(2)(E), a jury trial is permitted.⁴⁷

Van Asdale v. International Game Technology, 577 F.3d 989 (9th Cir. 2009) examined the substantive requirements necessary to establish a claim under the whistleblower-protection provisions of SOX. Plaintiffs, Shawn and Lena Van Asdale, were intellectual property attorneys working at IGT in Nevada but licensed to practice only in Illinois. *Id.* at 991-992. In 2001, IGT began merger negotiations with a company called Anchor Gaming. Plaintiffs contended that because they reported “possible shareholder fraud in connection with that merger,” they were terminated. The district court granted summary judgment to IGT. The court of appeals reversed.

IGT argued on appeal that plaintiffs should not be allowed to pursue their claim because, as Illinois-licensed attorneys, they cannot do so, citing *Balla*. The court of appeals rejected the argument. Saying it could find no case where *Balla* was applied to bar a suit by in-house counsel based on non-Illinois law, it added that federal courts in Illinois have refused to apply *Balla* to claims based on federal law. *Id.* at 995.⁴⁸

Next IGT argued that suit should be barred because to maintain the retaliatory discharge claim under SOX, plaintiffs would have to use attorney-client privileged information. Relying on *Willy*, *supra*, and *Kachmar*, *supra*, the Ninth Circuit rejected this claim as well:

Although neither case is precisely on point, we agree with the careful analysis of the Third and Fifth Circuits and hold that confidentiality concerns alone do not warrant dismissal of the Van Asdales’ claims. As a threshold matter, it is not at all clear to us to what extent this lawsuit actually requires disclosure of IGT’s confidential information. Shawn and Lena allege that they raised claims of shareholder fraud at their November 24, 2003, meeting with Johnson and that they were terminated in retaliation for these allegations. There is no reason why the district court cannot limit any testimony regarding this meeting to these alleged disclosures, while avoiding testimony regarding any litigation-related discussions that also took place. To the extent this suit might nonetheless implicate confidentially-related concerns, we agree with the Third Circuit that the appropriate remedy is for the district court to use the many “equitable measures at its disposal” to minimize the possibility of harmful disclosures, not to dismiss the suit altogether.

⁴⁷ The Dodd-Frank Act also prohibits retaliation against whistleblowers. A whistleblower is protected against adverse effects on the terms and conditions of employment because “of any lawful action done by the whistleblower” in (i) providing information to the SEC, (ii) “initiating, testifying in, or assisting in any investigation or judicial or administrative action of the Commission based upon or related to such information,” or (iii) “making disclosures that are required or protected under the Sarbanes–Oxley Act of 2002, the Securities Exchange Act of 1934, including section 10A(m) of such Act, and any other law, rule, or regulation subject to the jurisdiction of the Commission.” 15 U.S.C. § 78u-6(h)(1)(A). For a recent decision discussing the elements of the claim and then denying a motion to dismiss a claim brought by a nonlawyer under this law, see *Kramer v. Trans-Lux Corp.*, 2012 WL 4444820 (D. Conn. Sept. 25, 2012).

⁴⁸ The court of appeals cited two examples: “See, e.g., *Stinneford v. Spiegel Inc.*, 845 F. Supp. 1243, 1246–47 (N.D.Ill.1994) (holding that in-house counsel may bring suit under the Age Discrimination in Employment Act); *Rand v. CF Indus., Inc.*, 797 F. Supp. 643, 645 (N.D.Ill.1992) (same); *Hoskins v. Droke*, No. 94 C. 5004, 1995 WL 318817, at *3 (N.D.Ill. May 24, 1995) (holding that in-house counsel may pursue a retaliation claim under Title VII against his former employer).” 577 F.3d at 995.

Id. at 995-96.⁴⁹ The court of appeals then analyzed the facts and concluded that plaintiffs had set forth a *prima facie* case⁵⁰ and remanded the matter.⁵¹

MAY A FORMER IN-HOUSE LAWYER ENGAGE IN SELF-HELP BY COPYING PRIVILEGED DOCUMENTS BEFORE A TERMINATION BECOMES EFFECTIVE TO USE TO ESTABLISH A CLAIM?

There was no discussion in *Van Asdale* regarding the manner in which the Van Asdales had possession of privileged documents. One court has determined, however, that what the court called “egregious” self-help by a lawyer to assemble employer documents to pursue a claim against the employer is not permissible. *Nesselrotte v. Allegheny Energy, Inc.*, 2008 WL 2858401 (W.D. Pa. July 22, 2008). The procedural history sets the stage for the ethics’ analysis.

Defendant Allegheny Energy terminated plaintiff on October 11, 2004. The termination was not effective until October 31, 2004. In the interim, plaintiff “copied and removed hundreds of documents” from Allegheny Energy’s premises. Plaintiff also received copies of documents removed by other former in-house counsel who were terminated at the same time and had made claims that had been settled.

Plaintiff brought an age and gender discrimination action in October 2006. In October 2007, Allegheny Energy and the other defendants obtained leave to amend their answer and added counterclaims against plaintiff for breach of fiduciary duty and breach of contract. The fiduciary duty claim related to Allegheny Energy’s Ethics Code which prohibited employees from “taking advantage of or disclosing to anyone ... any

⁴⁹ The court of appeals added that the text and structure of Section 806 of SOX “counsel against IGT’s argument” since Section 806 authorizes “any person” to allege discrimination on the basis of protected conduct and there is nothing in the section that excludes attorneys from the protection of the statute. Rather, the court of appeals explained, 15 U.S.C. § 7245 expressly contemplates that attorneys might play a role in reporting possible securities fraud.

⁵⁰ The court of appeals explained why the facts supported a *prima facie* case: (1) “It is not critical to the Van Asdales’ claim that they prove that Anchor officials actually engaged in fraud in connection with the merger; rather, the Van Asdales only need show that they reasonably believed that there might have been fraud and were fired for even suggesting further inquiry.” 577 F.3d at 1001. (2) “We also conclude that the Van Asdales had a subjective belief that the conduct that they were reporting violated a listed law. The legislative history of Sarbanes–Oxley makes clear that its protections were “intended to include all good faith and reasonable reporting of fraud, and [that] there should be no presumption that reporting is otherwise, absent specific evidence.” 148 Cong. Rec. S7418–01, S7420 (daily ed. July 26, 2002) (statement of Sen. Leahy). In this case, there is no evidence that Shawn’s various complaints were made in bad faith and IGT does not suggest otherwise.” *Id.* at 1002. (3) “To establish a *prima facie* case under § 1514A, the Van Asdales also must establish that “[t]he named person knew or suspected, actually or constructively, that the employee engaged in the protected activity.” 29 C.F.R. § 1980.104(b)(1)(ii). This language is hardly a model of clarity (for example, it is not at all clear to us how one can constructively suspect someone of engaging in protected activity) but under any interpretation this element is satisfied here. As we have stated above, taking the Van Asdales’ deposition testimony and Shawn’s sworn declaration as true, the Van Asdales engaged in protected activity during the November 24, 2003 meeting with Johnson, as well as with Brown, and Pennington. It is undisputed that these persons have ‘supervisory authority’ over the Van Asdales. 18 U.S.C. § 1514A(a)(1)(c).” *Id.* at 1002-03 (footnote omitted). (4) There was no dispute that plaintiffs were fired and thus suffered an unfavorable personnel action. (5) Finally, the court of appeals held that the “contributing factor” requirement was satisfied: “In this case, Shawn was terminated approximately two and a half months after the November 24 meeting with Johnson, and Johnson acknowledged that he initially intended to terminate Shawn within three days of the meeting; Lena was fired several weeks after Shawn. Although we express no opinion on the merits of the Van Asdales’ claims, we hold that a reasonable fact finder could find that the Van Asdales’ alleged disclosures were a contributing factor in their terminations where, among other things, both Shawn and Lena were removed from their positions within weeks of their alleged protected conduct.” *Id.* at 1003.

⁵¹ Plaintiffs ultimately prevailed. A jury awarded Shawn Van Asdale, \$955,597 and Lena Van Asdale, \$1,270,303. The court awarded \$1,009,620 in legal fees, \$131,953.94 in costs, and prejudgment interest of \$552,418.52 to Shawn Van Asdale and \$723,347.90 to Lena Van Asdale. 2011 U.S. Dist. LEXIS 56715 (D.Nev. May 24, 2011).

Company information that they know or have reason to believe is confidential or proprietary” unless authorization is provided. The Ethics Code provided that the obligation to preserve confidentiality continued “even after a person is no longer employed by” the defendant. *Id.* at *1, n.4. The contract claim related to a Confidentiality Agreement signed by plaintiff when she was employed. It required employees to safeguard and maintain on the premises of defendant “and elsewhere as required, to the extent possible,” “all documents ... that contain or embody Confidential Information....” Upon termination, an employee was obliged to deliver to the defendant “all Confidential Information ... then in the Employee’s possession or under Employee’s control, whether prepared by Employee or others.” This obligation also survived the termination of employment. *Id.*

In November 2007, plaintiff filed a motion for a protective order, which resulted in plaintiff and plaintiff’s counsel being ordered to produce all documents of the defendants in their possession. Production was to take place by December 11, 2007. However, on December 6 defendants filed a motion for submission of these documents under seal. Plaintiff opposed the motion. A hearing followed at which defendants requested an *in camera* review of certain documents that defendant argued were privileged. A special master was then appointed to review the documents. *Id.* at *2.

With a few exceptions, the court approved of the special master’s privilege determinations. In response to the argument that the defendant had waived the privilege by asserting privileged documents as part of a defense to plaintiff’s claims, the court also held that defendant had not, in fact, placed advice of counsel at issue or disclosed any privileged documents as part of its defense. *Id.* at *5-7.

The district court then addressed plaintiff’s claim that Pennsylvania RPC 1.6(c)(4) allowed plaintiff to use privileged information to pursue her discrimination claims and defend against defendants’ criticism of her professional activities.

The district court immediately tackled the distinction between using privileged information as allowed by Pennsylvania RPC 1.6(c)(4) and “the manner or method in which an attorney obtains” the information. RPC 1.6(c)(4) (like Model Rule 1.6(b)(5)) does not “reference the method by which a former employer-attorney obtains such information.” The district court held that Pennsylvania RPC 1.6 “does not justify the method in which Plaintiff removed” the documents because the privilege belongs to the client:

[T]o the extent Plaintiff asserts that Rule 1.6(c)(4) allows an in-house attorney to copy and remove privileged and/or confidential documents before his or her last day of employment in order to use the same in future litigation against her former employer, the Court finds that such a reading ignores a well-settled aspect of the attorney-client privilege: the privilege belongs to the client, not the attorney.

Id. at *8 (citations omitted). Adopting plaintiff’s proposal, the district court said, would “wreak havoc” on the end of the employment relationship between in-house counsel and their employers,

insofar as attorney-employees would copy and remove a slew of documents requiring employers (i.e., the clients) to litigate the return of the same (akin to the instant case). As such, the Court refuses to endorse such a reading of Rule 1.6(c)(4). On the contrary, as this Court has stated on numerous occasions, the proper avenue for a former employee (even an attorney) to obtain privileged and/or confidential documents in support of his or her claims is

through the discovery process as set forth in the Federal Rules of Civil Procedure, not by self-help.

Id. (footnote omitted).

The district court then distinguished cases cited by plaintiff⁵² as well as ABA Formal Opinion 01-424⁵³ in reaching this conclusion:

In summary, the Court does not foreclose the notion of a former in-house counsel revealing information relating to the representation of a client in a proceeding against a client (and former employer).

...

Considering the Court's determination of the application of the attorney client privilege and work product doctrine to a portion of the Allegheny documents, and absent a recognized exception, (citations omitted), the Court declines to hold that Rule 1.6(c) (4) of the Pennsylvania Rules of Professional Conduct trumps the attorney client privilege in the context of this case, where an attorney employed self help by removing without authorization privileged and confidential documents seemingly in breach of her former employer's Ethics Code and Confidentiality Agreement.

Id. at *10 (footnote omitted).

The district court was plainly bothered by plaintiff's self-help remedy. After noting that *Burkhart v. Semitool Inc.*, *supra*, lent support to plaintiff's position, the district court explained that the case "is merely persuasive and easily distinguishable given the egregious facts surrounding Plaintiff Nesselrotte's conduct here." *Id.* at *9, n.33.⁵⁴

⁵² Plaintiff cited *Kachmar v. SunGard Data Systems, Inc.*, *supra*, and the Fifth Circuit's opinion in *Willy v. Administrative Review Board*, *supra*. As discussed above, in *Kachmar*, the Third Circuit held that an in-house attorney could bring a Title VII retaliatory discharge claim despite concerns over disclosure of client confidences where there are "other means to prevent unwarranted disclosure of confidential information." 109 F.3d at 181. In *Willy*, the Fifth Circuit reversed a decision of a Department of Labor Administrative Law Judge and held that "no rule or case law imposes a *per se* ban on the offensive use of documents subject to the attorney-client privilege in an in-house counsel's retaliatory discharge claim against his former employer under the federal whistleblower statutes when the action is before an ALJ." 423 F.3d at 501. The district court held that *Kachmar* did not determine whether Pennsylvania RPC 1.6(c)(3) trumped the attorney-client privilege when a former in-house counsel sues a former employer. It held that *Willy*'s holding was a narrow one arising out of an administrative proceeding, not a judicial one. 2008 WL 2858401 at *10.

⁵³ The district court explained that ABA Formal Opinion 01-424 "does not appear to consider the implications of the attorney client privilege and/or work product doctrine and how they interact with the Model Rules." The district court derived this conclusion from the statement in Formal Opinion 01-424 that, "The Committee only addresses the ethical considerations that arise under the Model Rules when such an action is permitted under applicable state law." 2008 WL 2858401 at *10. In fact, as discussed above, Formal Opinion 01-424 does discuss ways to minimize disclosure of client confidences without compromising a lawyer's ability to pursue wrongful discharge claims in states that permit such claims all under the umbrella of Model Rule 1.6(b)(5).

⁵⁴ The district court later entered summary judgment for defendants on their counterclaims. *Nesselrotte v. Allegheny Energy, Inc.*, 615 F. Supp. 2d 397 (W.D. Pa. 2009).

JDS Uniphase Corp. v. Jennings, 473 F. Supp. 2d 697 (E.D. Va. 2007) did not involve a lawyer but the case involved the issue of self-help and may have application to a dispute between an employer-client and a former in-house counsel.

Plaintiff sued a former tax executive for breach of contract, breach of fiduciary duty, conversion, and violation of Virginia's Uniform Trade Secrets Act. Defendant counterclaimed for breach of his employment contract and retaliatory discharge in violation of the Section 806 of SOX, 18 U.S.C. § 1514A. Plaintiff had prevailed in its summary judgment motion on defendant's counterclaims. The issue before the court in this opinion was whether Jennings breached his "Proprietary Information Agreement" (PIA), which prohibited him from removing and retaining copies of proprietary documents after his termination. There was no dispute that Jennings had proprietary information after his termination and that he retained them despite requests to return them. Jennings argued that the PIA was not enforceable because of a California law that encouraged employees to notify government agencies when they have reason to believe their employer is violating laws enacted for the protection of shareholders, investors, employees and the general public. *Id.* at 701. The court rejected the argument:

[W]hile it is understandable and appropriate for California to adopt a policy encouraging whistleblowers to report their employers' violations of law, it does not follow from this that California meant by this declaration to invalidate confidentiality agreements and to authorize whistleblowers to steal or convert their employers' proprietary documents. Succinctly put, Sarbanes-Oxley is not a license to steal documents and break contracts.

Id. at 703.

The court then endorsed the approach of wrongful document retention cases that subpoenas, not self-help, should be used to obtain documents:

The rationale of these wrongful document retention cases is that an employee, even if aggrieved, should not engage in self-help by wrongfully retaining an employer's documents; but instead the employee should file suit and seek the documents via subpoena. While Jennings objects that this would frustrate attempts at effective Sarbanes-Oxley whistleblowing because documents could be shredded in the interim, some cases have recognized that an employee might be justified in retaining documents, or "surreptitiously copying" them, if there were a sufficiently persuasive showing that the documents would be destroyed. (Citation omitted.) Here, however, there has been no such showing, nor indeed has Jennings alleged that these documents would have been destroyed had he not taken them. Because Jennings had legitimate methods of obtaining these documents for his counterclaims and the Sarbanes-Oxley administrative proceeding, namely, subpoenas, and because there is no contention the documents would have been destroyed in the interim, it is not contrary to California public policy to enforce the confidentiality agreement.

Id. at 704 (footnote omitted).⁵⁵

MAINTAINING DOCUMENTS IN THE POSSESSION OF A FORMER IN-HOUSE COUNSEL TO PURSUE A CLAIM

An employer had a different outcome with respect to documents in the possession of a former in-house counsel in *Fox Searchlight Pictures Inc. v. Paladino*, 106 Cal. Rptr.2d 906 (Cal. Ct. App. 2001). Paladino believed she had been wrongfully terminated because of “her frequent use of pregnancy leave.” *Id.* at 910. Her counsel sent Fox a draft complaint with an accompanying letter in which “Paladino’s attorneys advised Fox they did not believe the draft complaint disclosed any privileged information but they wished to give Fox an opportunity to examine the complaint before it was filed and to alert them as to any material Fox believed was protected by the attorney-client privilege.” *Id.* at 910. Fox responded by filing an action claiming that Paladino’s disclosures of client confidences to Paladino’s attorneys “constituted a violation of her ethical duties as well as a breach of her fiduciary duty and her employment contract with Fox.” *Id.* at 911.⁵⁶ As part of the relief being sought, Fox asked for return of Fox’s documents in Paladino’s possession. *Id.* Paladino moved to strike Fox’s complaint as a “Strategic Lawsuit Against Public Participation” (SLAPP),⁵⁷ while Fox moved to disqualify Paladino’s counsel. Both motions were denied and the appeal followed.

As explained earlier, the appellate court reversed the disqualification order. It also reversed the decision that the complaint was not subject to a motion to strike under SLAPP. In connection with the SLAPP ruling, the appellate court addressed the issue of return of Fox’s documents holding that Paladino had the right to use them to prepare and prosecute her suit: “[W]hether the material in question is privileged or confidential is not relevant to the threshold issue of whether the SLAPP statute applies to Fox’s complaint. Nor can we say from the record before us, as a matter of law, the maintenance of this material was not an act in furtherance of the preparation and prosecution of Paladino’s suit against Fox.”⁵⁸

As noted above, SLAPP provides that if there is a probability that the plaintiff will prevail on the plaintiff’s claim, then the motion to strike must be denied. But Fox’s lawsuit focused on the narrow question of whether

⁵⁵ Sanctions concerns regarding spoliation of evidence are a deterrent to any person who elects to discard documents knowing not only that a dispute may be brewing with a former in-house counsel but also that the former employee not only knows what documents were created and but may have drafted some of the documents.

⁵⁶ Paladino’s employment contract provided that all documents made or compiled by Paladino while employed belonged to Fox and would be returned to Fox upon termination, and required Paladino to keep in confidence any information concerning business activities of Fox that was not publicly available and was obtained as a result of Paladino’s employment. 106 Cal. Rptr.2d at 911, n.2.

⁵⁷ The appellate court explained: “Under Code of Civil Procedure section 425.16, “[a] cause of action against a person arising from any act of that person in furtherance of the person’s right of petition or free speech under the United States or California Constitution in connection with a public issue shall be subject to a special motion to strike, unless the court determines that the plaintiff has established that there is a probability that the plaintiff will prevail on the claim.” 106 Cal. Rptr.2d at 915 (footnote omitted).

⁵⁸ The court appeared to be saying that Paladino’s right of petition would otherwise be adversely impacted in contravention of SLAPP.

Paladino could divulge to her own attorney confidences obtained during the course of employment. *Id.* at 918. As explained earlier, the court held that she could.⁵⁹

X Corp. v. Doe, 805 F. Supp. 1298 (E.D. Va. 1992)⁶⁰ began with this statement: “Few problems are as vexing as determining what evidence justifies a lawyer’s disclosure of a client’s confidential information and documents, which the lawyer believes reflect an ongoing or future crime or fraud.” *Id.* at 1300. Plaintiff sued defendant, a former in-house attorney, to prevent disclosure of confidential information and to seek return of documents retained by defendant after his discharge. Defendant claimed the documents fell within the public policy crime-fraud exception to the attorney-client privilege “and to any general or contractual duty of confidentiality.” *Id.* The matter was before the court on plaintiff’s motion for a preliminary injunction to seal the record in a related wrongful termination suit brought by defendant, prohibit disclosures of confidential information by defendant and his counsel, and obtain the allegedly misappropriated documents.

When defendant was hired, defendant had signed a confidentiality agreement in which he agreed to return to plaintiff all records obtained during his employment and to preserve plaintiff’s confidential information. When he was let go as part of a reduction-in-force,⁶¹ he copied certain documents and files that he believed showed that plaintiff was defrauding the federal government, an allegation that was at the core of defendant’s retaliatory discharge counterclaim under the False Claims Act to plaintiff’s claims for breach of fiduciary duty and breach of the confidentiality agreement. Some of these documents were provided to the court *in camera* for a determination of whether the crime-fraud exception to the attorney-client privilege was applicable. *Id.* at 1301-02.⁶²

The district court distinguished between a preliminary injunction to maintain the status quo and a mandatory injunction. The former, the court held under law then in effect, did not require proof of likelihood of success on the merits if the balance of hardships favored the moving party and issuance of the preliminary injunction was in the public interest. The latter is disallowed unless the likelihood of success is demonstrated. *Id.* at 1303.

⁵⁹ The appellate court added: “In the present case we are not faced with, and do not decide, whether the former in-house counsel or her attorney can be held liable to the employer for the public disclosure of those confidences and communications.” 106 Cal. Rptr.2d at 919.

⁶⁰ Pseudonyms were used in the caption to prevent identification of the parties and “possible disclosure of confidential information.” 805 F. Supp. at 1300, n.1.

⁶¹ Plaintiff said this was the reason for the discharge. Defendant claimed he was discharged in retaliation for actions plaintiff believed he was taking to pursue a False Claims Act *qui tam* action. 805 F. Supp. at 1301.

⁶² The court explained: “To overcome an established privilege using the crime-fraud exception, the party opposing the privilege need make only a *prima facie* showing that the communications either (i) were made for an unlawful purpose or to further an illegal scheme or (ii) reflect an ongoing or future unlawful or illegal scheme or activity. The purported crime or fraud need not be proved.” 805 F. Supp. at 1307.

Because of the limitations on disclosure under Virginia's Model Code in effect at the time⁶³ and because of the public's interest in "enforcing principles of attorney confidentiality," the court enjoined defendant from making further disclosures of plaintiff's alleged confidences and secrets "until such time as this matter is fully litigated."

The court, however, refused to order the return of the documents because of the protections in place on disclosure under the injunction, and because it was not clear that plaintiff was likely to prevail on the merits of its claimed breach of the confidentiality agreement:

Simply put, X Corp. is unlikely to suffer irreparable harm if Doe is permitted to retain document copies he took when he left X Corp.'s employ. X Corp. has all the original documents. X Corp. also has notice of the subject matter covered by the documents and thus is reasonably able to identify the documents in Doe's possession. And in light of the Court's disposition of the disclosure issue, X Corp. faces no risk that Doe will use or disseminate the documents in any manner detrimental to X Corp., other than in the defense of this case or the prosecution of his personal claims. Nor, for reasons already noted, is it clear that X Corp. is likely to prevail on the merits of the breach of the Confidentiality Agreement claim pursuant to which it seeks recovery of the documents. Indeed, if the documents clearly establish a fraud, it is unlikely that X Corp. would prevail on that claim. Finally, no discernable public interest exists in mandating a return of the documents at this stage of the proceedings. To do so would merely confer on X Corp. the fruits of victory before they are earned.

Id. at 1311-12.⁶⁴

⁶³ The court established the order of proof required: "[I]n proving its claim that Doe is obligated to maintain its confidences pursuant to the ethical duty, X Corp. bears the initial burden of establishing that the duty exists and that the disputed communications are subject to it. To do so, X Corp. must show, *inter alia*, that the communications sought to be protected are "confidences" or "secrets" within the meaning of Virginia Code of Professional Responsibility DR4-101(A). If X Corp. carries this burden and establishes that Doe is ethically bound not to disclose this material, the burden then shifts to Doe to show that the material and information he voluntarily disclosed or seeks to disclose "clearly establish []" that during the course of Doe's representation, X Corp. perpetrated a fraud related to the subject matter of the representation upon a third party, namely, the federal government. See Virginia Code of Professional Responsibility DR4-101(C)(3). To accomplish this, Doe must demonstrate more than mere suspicion of fraud; he must show that a reasonable attorney in his position would find the communications at issue to be convincing evidence of the perpetration of a fraud on the government during the course of his representation related to the subject matter of that representation. But the fraud itself need not be conclusively proved. Thus, the issue for trial is not whether X Corp. was in fact perpetrating a fraud on the government. Rather, the primary issues for trial are (i) what Doe knew or should have known at the time of the intended disclosures (or the time X Corp. sought to enjoin disclosures) and (ii) whether a reasonable attorney with that knowledge would find that it clearly establishes an ongoing or planned fraud, that is, that it constitutes convincing evidence of an ongoing or planned fraud. If Doe satisfies the "clearly establishes" standard, disclosure is permissible (but not required), even if X Corp. ultimately proves that no fraud existed." 805 F. Supp. at 1310 (footnotes omitted). Virginia now follows the Model Rules. Virginia RPC 1.6(b)(2) mimics Model Rule 1.6(b)(5) but permissive and mandatory disclosure under Virginia's RPC 1.6 is broader than under Model Rule 1.6. <http://www.vsb.org/docs/2009-10-pg-rpc.pdf>.

MAY OUTSIDE COUNSEL RETAIN PRIVILEGED DOCUMENTS TO ESTABLISH A CLAIM OR DEFENSE AGAINST A CLIENT IF THE CLIENT DEMANDS RETURN OF ITS FILES?

Model Rule 1.16 provides that upon termination of representation, a lawyer “shall take steps to the extent reasonably practicable to protect a client’s interests, such as ... surrendering papers and property to which the client is entitled” It then states, “The lawyer may retain papers relating to the client to the extent permitted by other law.” Comment [9] then adds: “The lawyer may retain papers as security for a fee only to the extent permitted by law.”

Some states, like Utah and Louisiana, adopted Model Rule 1.16 with a provision that allows the attorney to retain copies of a client’s file.⁶⁵ A number of ethics opinions have reached the same conclusion. See for example, NYSBA Opinion 780 (December 8, 2004)⁶⁶; Nebraska Ethics Opinion 12-09⁶⁷; Massachusetts Ethics Opinion 92-4 (1992)⁶⁸; Alabama Ethics Opinion 88-102 (1988)⁶⁹; Ohio Ethics Opinion 92-8⁷⁰; Colorado Ethics

⁶⁴ After discovery, the district court granted summary judgment to plaintiff on its claim for return of the documents and against defendant on his claim of retaliatory discharge. *X Corp. v. Doe*, 816 F. Supp. 1086, 1095 (E.D. Va. 1993) (“Doe has failed to meet his burden of establishing that the documents reflect convincing evidence of fraud in connection with both the New Materials and Price Reduction [Federal Acquisition Regulations]. Put another way, Doe has failed to show that his proposed voluntary disclosure is justified given the compelling public interest in preserving the integrity of the attorney-client relationship. Given this, the disputed documents must be returned and Doe permanently enjoined from voluntarily disclosing X Corp.’s confidences and secrets. In reaching this result, however, the Court expresses no opinion on the merits of any possible *qui tam* action that may be brought by the government or Doe to enforce the False Claims Act.”) A permanent injunction was then entered against defendant regarding disclosures of X Corp.’s confidences. In yet another opinion in the saga of this case, the district court held that defendant could not serve as a relator in the *qui tam* action against plaintiff. *United States v. X Corp.*, 862 F. Supp. 1502 (E.D. Va. 1994). This holding deprived defendant of a share of settlement proceeds and attorneys’ fees following the settlement of the *qui tam* action by X Corp. and the government. The district court held that defendant could not satisfy the statutory prerequisite of providing information to the government in light of the permanent injunction against disclosures by him: “X Corp. initiated X Corp. II to resolve the legality of Doe’s disclosing certain of X Corp.’s documents and information to others. Because at that time, unbeknownst to X Corp., Doe had already filed the complaint in this action, all proceedings in this action were held in abeyance pending resolution of X Corp. II. And, as a result of X Corp. II, Doe was “permanently enjoined from voluntarily disclosing X Corp.’s confidences and secrets” and was ordered to return X Corp.’s confidential documents. 816 F. Supp. at 1095. Apart from certain background information regarding the parties, the factual information in Doe’s complaint clearly falls within the coverage of the injunction. It was only through confidential communications with X Corp. employees and by review of some confidential documents that Doe learned all of the alleged “facts” supporting his allegations that X Corp. was perpetrating a fraud on the government. This information certainly constitutes “X Corp.’s confidences and secrets,” and Doe’s use of the information to form the basis of his complaint is at odds with the terms and purpose of the injunction. Therefore, Doe cannot lawfully rely upon the complaint and the information therein to meet the § 3730(b)(2) requirements. Without the complaint, Doe cannot satisfy these requirements. In essence, this case presents the situation, discussed earlier, where state law has the incidental effect of precluding an attorney from being a relator in certain circumstances. Because the complaint contains X Corp.’s confidences and secrets, which Doe has been enjoined under state law from disclosing, Doe cannot serve as a relator in this action.” *Id.* at 1509-10 (footnotes omitted).

⁶⁵ Utah’s RPC 1.6(d) provides in pertinent part: “The lawyer may reproduce and retain copies of the client file at the lawyer’s expense.” http://www.utcourts.gov/resources/rules/ucja/ch13/1_16.htm. Louisiana’s RPC 1.16(d) similarly provides in pertinent part: The lawyer may retain a copy of the file but shall not condition release over issues relating to the expense of copying the file or for any other reason. <http://www.ladb.org/Publications/ropc.pdf>. Nebraska Ethics Opinion 12-09, which determined that a lawyer may retain copies of a file “absent an agreement from the client,” contains a discussion of the changes made in Model Rule 1.16 by a number of state bar associations. <http://www.supremecourt.ne.gov/sites/supremecourt.ne.gov/files/ethics/lawyers/12-09.pdf>.

⁶⁶ <http://www.nysba.org/AM/Template.cfm?Section=Home&template=/CM/ContentDisplay.cfm&ContentID=6868>. There was one caveat: “This general rule may be subject to exceptions that we are not required to elaborate on in this opinion, such as where the client has a legal right to prevent others from copying its documents and wishes for legitimate reasons to ensure that no copies of a particular document be available under any circumstances.”

⁶⁷ <http://www.supremecourt.ne.gov/sites/supremecourt.ne.gov/files/ethics/lawyers/12-09.pdf>.

⁶⁸ <http://www.massbar.org/publications/ethics-opinions/1990-1999/1992/opinion-no-92-4>.

Opinion 104 (1999)⁷¹; and Kentucky Ethics Opinion E-235 (1980).⁷² In *Spratley v. State Farm Mut. Auto Ins. Co.*, 78 P.3d 603, 611 (Utah 2003), the Utah Supreme Court limited a lawyer's obligation to return "confidential documents and materials" to "original documents and materials," and following Utah RPC 1.16(d), said that "the attorney is permitted to retain copies at its own expense."

But apart from these versions of Model Rule 1.16 or ethics opinions permitting lawyers to retain a copy of a client's file if a client and an outside counsel have a falling out, while the lawyer must surrender the client's files, based on much of the case law discussed above, an outside counsel who is permitted to reveal information to establish a claim or defense in a controversy with a client should be able to retain a copy of the documents containing that information.

A FRAMEWORK FOR FILINGS TO PROTECT THE PUBLIC'S RIGHT TO ACCESS COURT FILINGS YET PROTECT PRIVILEGED INFORMATION

Siedle v. Putnam Investments, Inc., 147 F.3d 7 (1st Cir. 1998) addressed the propriety of unsealing a record in an action by an attorney against his former employer. The court of appeals explained that revealing information to defend against accusations of wrongful conduct as permitted under the Model Code then in effect in Massachusetts did not give Siedle the right to have the record unsealed: "Siedle has not pointed us to, and our research has failed to unearth, a single reported case from any jurisdiction in which an attorney has been permitted to use confidential information *offensively* when the attorney chafed at the client's criticism of his work (even if the attorney viewed that criticism as defamatory)." *Id.* at 11 (emphasis in original).

The court of appeals did approve of a framework for balancing the public's right of access to court filings with protection of privileged information:

As the litigation proceeds, the seal order would require that each party's pleadings be placed under seal in the first instance. As to filings originating with Putnam, Putnam would simultaneously submit redacted versions, camouflaging only information that it claims in good faith is protected by the attorney-client privilege. As to filings originating with Siedle, Putnam should, within a short period after receiving the served copy of any such filing, proffer to the district court a version of it from which Putnam has redacted information that it believes in good faith falls within the attorney-client privilege. The redacted versions of all

⁶⁹ The opinion is not available online. It is reported in the ABA/BNA Manual on Professional Conduct, which summarizes the opinion as follows: "A lawyer who previously served as counsel for a client and is replaced by other counsel may keep the client's files only if the client so directs because the files belong to the client. The lawyer may, however, retain copies of the client's file at her own expense."

⁷⁰ The opinion can be found by searching at http://www.supremecourt.ohio.gov/Boards/BOC/Advisory_Opinions/default.aspx. ("An attorney may retain a copy of the client's file since the information in the file may be needed in the event of a later dispute between the attorney and client.")

⁷¹ <http://www.cobar.org/index.cfm/ID/386/subID/1825/CETH/Ethics-Opinion-104:-Surrender-of-Papers-to-the-Client-Upon-Termination-of-the-Representation.-04/17/>.

⁷² http://www.kybar.org/documents/ethics_opinions/kba_e-235.pdf.

future filings should be publicly available, and the district court should put in place a process for resolving any redaction-related disputes.

Id. at 12, n.6.

CONCLUSION

This journey through the intricacies of permissible disclosure of attorney-client privileged information under the rules of professional conduct, ethics opinions, and the case law draws several lessons:

- Where discovery sanctions are in issue and the client and outside counsel are pointing fingers at each other, attorney-client communications may not be privileged and if they are, they may be regarded as waived, but in any event, Model Rule 1.6(b)(5) or the common law can be invoked to allow a federal court, at least, the opportunity to decide who has culpability.
- Model Rule 1.6(b)(5) has not been adopted verbatim in every state and the form of the rule in a particular state could have outcome-determinative consequences.
- There is no doubt that a lawyer can consult his or her counsel and disclose confidential information to obtain legal advice.
- The majority of states that have addressed the subject of wrongful discharge have allowed claims by lawyers.
- *Balla* has not been received well by the majority of other jurisdictions which have addressed similar issues because measures to control disclosures of client confidences exist to allow legitimate claims to be decided on their merits.
- All state court cases must be read with an eye on the rule of professional conduct in effect at the time.
- Federal courts treat the existence of a privilege and waiver of a privilege as matters of federal, not state law.
- Laws like Title VII do not exclude in-house counsel.
- Courts have a number of tools at their disposal to allow claims to be heard on their merits while minimizing the disclosure of client confidences.
- In-house lawyers in possession of confidential documents have been allowed to keep them and not allowed to keep them, depending upon the specific facts of each case.
- Outside counsel in many jurisdictions are permitted to retain a copy of client documents even when a client demands return of its documents.
- Whistleblower statutes, particularly on the federal level, will likely become a significant source of future jurisprudence in the area of lawyer-client fallout.

Finally, this paper does not address up-the-ladder reporting or the SEC's rules on disclosure under SOX for lawyers representing public companies, but neither Model Rule 1.13 nor those SEC rules can be ignored by anyone interested in studying more broadly the topic of lawyer-client fallout.⁷³

⁷³ For a lengthy discussion of both topics, see Barkett, *Tattletales or Crimestoppers: Disclosure Ethics Under Model Rules 1.6 and 1.13* (ABA 2008).

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- *Work Product Protection for Draft Expert Reports and Attorney-Expert Communications* (forthcoming) (ABA Section of Litigation Annual Conference, Chicago, April 26, 2013)
- *Chess Anyone? Selection of International Commercial Arbitration Tribunals*, (Miami-Dade County Bench and Bar Conference, February 8, 2013)
- *More on the Ethics of E-Discovery: Predictive Coding and Other Forms of Computer-Assisted Review* (http://law.duke.edu/sites/default/files/centers/judicialstudies/TAR_conference/Panel_5-Original_Paper.pdf) (Duke Law School, October 2012)

- *The Roberts Court 2011-12: The Affordable Care Act and More* (ABA Annual Meeting, Chicago, August 3, 2012)
- *Ethical Challenges on the Horizon: Confidentiality, Competence and Cloud Computing* (ABA-CLE, July 24, 2012)
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- *The CERCLA Limitations Puzzle*, 19 N.R.E. 70 (Fall, 2004)
- *If Terror Reigns, Will Torts Follow?* 9 Widener Law Symposium 485 (2003)

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