REDUCE LITIGATION RISKS WHEN HIRING FROM A COMPETITOR

Issues to Consider Regarding In-House Counsel Disqualification

Market Trends: Indemnification Provisions in Asset Purchase Transactions
PRACTICE NEWS

4  A BRIEFING ON EMERGING ISSUES IMPACTING TRANSACTIONAL PRACTICE  
Commercial Transactions, Finance, Labor & Employment, Real Estate

PRACTICE POINTERS

10 BEST PRACTICES TO REDUCE LITIGATION RISKS WHEN HIRING FROM A COMPETITOR  
Labor & Employment

20 PROTECTING TRADE SECRETS AND CONFIDENTIAL INFORMATION WHEN HIRING  
Labor & Employment

23 DRAFTING AND REVIEWING THE KEY DOCUMENTATION FOR A PRIVATE EQUITY FUND AND ITS OFFERING  
Corporate and Mergers & Acquisitions

PRACTICE TRENDS

28 THE IMPACT OF "CASH-IN-LIEU OF BENEFITS" PAYMENTS TO EMPLOYEES ON OVERTIME COMPENSATION CALCULATIONS  
Labor & Employment

32 COMPENSATION EXCLUDED FROM REGULAR PAY RATES  
Labor & Employment

34 GUIDANCE ON RANSOMWARE ATTACKS  
Intellectual Property & Technology

PRACTICE NOTES

38 BANK REGULATION AND COMMERCIAL LENDING  
Finance

44 LENDER LIABILITY UNDER ENVIRONMENTAL LAWS IN REAL ESTATE TRANSACTIONS  
Real Estate

PRACTICE PROFILE

58 A LOOK INTO DIGITAL MEDIA’S INFLUENCE ON BRAND IDENTITY AND INTELLECTUAL PROPERTY RIGHTS WITH PO YI  
Intellectual Property & Technology

IN-HOUSE INSIGHTS

62 ISSUES TO CONSIDER REGARDING IN-HOUSE COUNSEL DISQUALIFICATION  
Corporate Counsel

PRACTICE PROJECTIONS

66 PATENT LITIGATION STRATEGIES AGAINST PATENT TROLLS  
Intellectual Property & Technology

73 MARKET TRENDS: INDEMNIFICATION PROVISIONS IN ASSET PURCHASE TRANSACTIONS  
Corporate and Mergers & Acquisitions

ON BOARD

79 PROFILES OF LEXIS PRACTICE ADVISOR JOURNAL™ ADVISORY BOARD MEMBERS ANDREW BETTWY & ALEXANDRA MARGOLIS
ISSUES TO CONSIDER REGARDING IN-HOUSE COUNSEL DISQUALIFICATION
Federal and state courts have the power to disqualify a lawyer from continuing to represent a client by requiring withdrawal when a disabling conflict of interest exists. While courts are generally reluctant to impose this harsh remedy—recognizing a party’s right to choice of counsel and a lawyer’s right to freely practice law—courts do not hesitate to disqualify a lawyer when client loyalty is betrayed or client confidential information is unprotected.

**In-House Counsel Disqualification**

Disqualification of in-house counsel is highly unusual. When the disqualified in-house counsel’s conflict is imputed to other in-house lawyers and extended to reach outside counsel, the outcome can be devastating. But it does happen, and lateral in-house lawyers need to be extra careful regarding conflicts baggage they may carry from one corporate legal department to another.

Recently, the United States Court of Appeals for the Federal Circuit affirmed a district court's disqualification of in-house counsel and outside counsel due to a conflict of interest arising from an in-house lawyer's work for her new company in a patent infringement suit against her former company in a "substantially related" matter involving communication of her former company's confidential information to other in-house counsel and outside counsel. The decision discussed below is particularly noteworthy for in-house attorneys because of the district court’s treatment of plaintiff’s corporate legal department as a "law firm" for purposes of applying conflicts of interest rules to disqualify counsel. See, Dynamic 3D Geosolutions LLC v. Schlumberger Ltd. (Schlumberger N.V.), 2016 U.S. App. LEXIS 16645, 837 F.3d 1280 (Fed. Cir. 2016).

**Roles & Responsibilities**

In the Dynamic 3D case, an in-house lawyer (In-house Counsel) was employed as Schlumberger’s Deputy General Counsel for Intellectual Property for seven years. In this position, she was responsible for developing and implementing her company’s worldwide intellectual property (IP) strategy, protecting and preserving its IP assets (including patents, trademarks, and trade secrets), advising senior executives on IP-related risks, enforcing IP litigation, and directing and supervising outside counsel on IP legal matters. She managed a copyright lawsuit involving her company’s software platform, Petrel, and worked on a “Goldstar” project evaluating the patentable aspects of Petrel while assessing the risk of lawsuits against it. The project also analyzed the '319' patent held by a competitor that was used to turn seismic and well-log data into a real-time interactive three-dimensional display.

**Lateral Move to Competitor’s Legal Department**

After seven years, In-house Counsel left Schlumberger to become Senior Vice President and Associate General Counsel at Acacia Research Group LLC, an affiliate of Dynamic 3D Geosolutions LLC, which was assigned the ‘319 patent acquired by Acacia’s parent company (collectively, Acacia). At her new company, In-house Counsel met with inventors of the ‘319 patent and Schlumberger’s Petrel product as a potential target of the patent infringement litigation. Thereafter, In-house Counsel approved a recommendation (prepared by other in-house counsel at Acacia and Outside Counsel) to Acacia's CEO to acquire the '319 patent and sue Schlumberger.

In a subsequent patent litigation against Schlumberger, In-house Counsel and Acacia’s other in-house lawyer retained Outside Counsel to handle all patent-related litigation. Then, Schlumberger filed a motion to disqualify counsel from the case on conflicts of interest grounds, which the district court granted, disqualifying In-house Counsel, the other Acacia in-house lawyer, and Outside Counsel.

**Substantial Relationship Test**

On appeal, the Federal Circuit analyzed Rule 1.09(a) of the Texas Disciplinary Rules of Professional Conduct (Texas Rule) and Rule 1.9 of the corresponding American Bar Association Model Rules of Professional Conduct (ABA Model Rules), which prohibit a lawyer from being materially adverse to a former client in a "substantially related" matter where the lawyer acquired confidential information of the former client, and from using it to the disadvantage of the former client, unless permitted by the rules.

The Federal Circuit affirmed the district court’s finding that In-house Counsel’s prior work at Schlumberger was substantially related to her current work at Acacia, and rejected Acacia’s argument that she formerly played a limited, supervisory role. The court agreed with Schlumberger, which contended that In-house Counsel previously personally represented Schlumberger in litigation and licensing.

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matters, including leading a team that evaluated IP rights and risks relating to Petrel, that she admitted acting in a legal capacity for Acacia at the initial meetings involving the ‘319 patent, and that the assessment of Petrel being a possible litigation target was clearly related to her former work. The Court observed that “[t]he record documents [In-house Counsel’s] involvement at Schlumberger in a project specifically evaluating a product later accused of infringement by Acacia, and the risks of such an infringement suit. [In-house Counsel’s] representation at Schlumberger included efforts to license Petrel when the later-accused features of the product existed in the older versions with which [In-house Counsel] was involved.”

Possession/Use of Confidential Information

Societal Rights/Ethical Duties. In analyzing attorney disqualification, the Court acknowledged the important societal rights of a party’s choice of counsel and a lawyer’s freedom to practice his profession, but ultimately concluded that “there is an overriding countervailing concern suffusing the ethical rules: a client’s entitlement to an attorney’s adherence to her duty of loyalty, encompassing a duty of confidentiality ... A client would feel wronged if an opponent prevailed against him with the aid of an attorney who formerly represented the clients in the same matter.”

Irrebuttable Presumption. Schlumberger argued that “Fifth Circuit precedent imposes an irrebuttable presumption that relevant confidential information was acquired once prior and present representations are shown to have been substantially related.” The Federal Circuit agreed with Schlumberger, ruling that In-house Counsel was irrebuttable presumed to have possessed Schlumberger’s relevant confidential information and disqualified her. The court reasoned that “[i]t was inappropriate [for Acacia] to hire a senior attorney, one intimately knowledgeable concerning a particular product, its competitors, its associated business strategies and intellectual property, into a position in which she not only participated in but in fact played a significant role in acquiring a patent used to accuse her former employer’s product of patent infringement.”

The Court noted that In-house Counsel, in her role as legal counsel for Acacia, admitted attending meetings with the inventors of the ‘319 patent, other in-house counsel and Outside Counsel regarding its acquisition, and also admitted that Schlumberger’s Petrel product was discussed at those meetings. In addition, the court observed that In-house Counsel’s concurrence with the recommendation by other in-house counsel and Outside Counsel to acquire the ‘319 patent and to sue Schlumberger would have “entailed assessing the patent’s value as a litigation tool against Schlumberger with knowledge of her former employer’s confidential information.” Moreover, the Court pointed out that at oral argument, “Acacia itself admitted that it failed to screen her from the case, and both Dynamic 3D and Acacia provided privilege logs evincing [In-house Counsel’s] involvement in the present suit.”

Conflict Imputed to Other In-House Counsel

Treatment as a “Law Firm.” Next, the Federal Circuit examined the district court’s treatment of Acacia’s legal department as a “law firm” for purposes of applying the conflicts of interest rules to impute In-house Counsel’s disqualification to other in-house counsel within Acacia’s legal department. The Court reviewed Texas Rule 1.09(b), which extends Texas Rule 1.09(a)’s restrictions on an individual lawyer’s ability to undertake a representation against that lawyer’s former client to apply to all other lawyers who are or become members of or are associated with the “law firm” where that lawyer currently practices. Similarly, ABA Model Rule 1.10 extends the prohibition to members of a lawyer’s new firm (unless disqualification can be cured by screening), and Comment 2 to the rule emphasizes that each lawyer is “vicariously bound by the obligation of loyalty.”

On this point, Acacia contended that Fifth Circuit precedent does not require a presumption of disclosure for in-house attorneys which should be based on the duty of loyalty resulting from personal representation, and further that there is no rationale for a presumption since none of Acacia’s “licensing executives” worked for Schlumberger. In response, Schlumberger asserted that under Fifth Circuit law on conflicts imputation to other in-house counsel, the analysis turns on whether the conflicted attorney’s representation was personal.

Failure to Screen. The court rejected Acacia’s argument and held that regardless of whether the presumption of disclosure was irrebuttable or rebuttable, Acacia was unable to rebut the presumption after admitting that it had not erected an ethical wall to prevent the flow of confidential communications from In-house Counsel to Acacia’s legal department lawyers. The Court concluded

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2. Dynamic 3D Geosolutions LLC v. Schlumberger Ltd. [Schlumberger N.V.], 2016 U.S. App. LEXIS 16645, 837 F.3d 1280 (Fed. Cir. 2016) at 14. 3. Id. at 12. 4. Id. at 12. 5. Id. at 16. 6. Id. at 15. 7. Id. at 16. 8. Id. at 21. 9. Id. at 22.
that, “ethical standards are clear that lawyers similarly associated have had conflicts imputed to them.”9 The court reasoned that by attending meetings and deciding to hire Outside Counsel, In-house Counsel “communicated to the other in-house counsel that she supported the litigation strategy and thereby disclosed confidential information to other Acacia attorneys.”9 Significant to the Court’s imputation analysis was the fact that other in-house counsel in Acacia’s legal department reported solely to In-house Counsel until after the potential conflict was raised. This glaring conflict precipitated the Court to impute In-house Counsel’s conflict on Acacia’s legal department to disqualify its other in-house counsel.

Double Imputation: Conflict Stretched to Outside Counsel

The Federal Circuit further extended its imputation of In-house Counsel’s conflict to disqualify Outside Counsel retained by Acacia, rejecting Acacia’s argument that only actual disclosure of confidential information or substantive communications with In-House Counsel warrants disqualification of Outside Counsel under Fifth Circuit law. In affirming the “double imputation” to Outside Counsel, the Court concluded that “there was sufficient evidence of [In-house Counsel’s] involvement in the selection of [Outside Counsel] ... and in the litigation against Schlumberger to support a finding of communication by conduct.”10 Furthermore, the Court found that “[In-house Counsel] disregarded the duty of loyalty and communicated confidential information not only to other in-house counsel but also to outside counsel.”11

Disqualification to Dismissal

Ultimately, the Court dismissed without prejudice Acacia’s complaint as “[a]ll aspects of the case were contaminated by [In-house Counsel’s] actions, from [Acacia’s] purchase of the ‘319 patent, to preparation for suit against Schlumberger, to the actual filing of the suit.”12 The Court ruled that “continuing the case after disqualification without dismissal would greatly prejudice a party because the case would be tried on a record developed primarily through the fruits of [the disqualified attorney]’s unethical labor.”13

Watch Out or You’re All Out!

Conflicts of interest can disqualify lateral in-house lawyers who move between legal departments the same way conflicts can disqualify outside counsel who move between law firms. The conflicts imputation rules apply equally to legal departments and law firms and can have drastic implications on the disqualified lawyer and all other lawyers who may be contaminated by communicating with the disqualified lawyer, whether in the legal department or at a retained law firm. Legal departments and law firms should conduct due diligence when initially hiring or working with in-house or outside lawyers and constantly be on the lookout for potential conflicts on the horizon before they become disqualifying conflicts. If conflicts actually arise, which they inevitably do, legal departments and law firms should take adequate steps to build proper ethical walls to safeguard client confidences. Otherwise, as case law shows, when the dust from disqualification settles, its practical impact often is the former client’s loss of confidential information and the new client’s deprivation of counsel of its choice. 

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