ETHICS QUARTERLY

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INTRODUCTION

Happy New Year! This edition of Ethics Quarterly covers cases from September 16, 2012 through December 31, 2012. The Commentary is entitled "**Consequential Roles:** The Impact of an Attorney's Function on Client Rights." For the third time, this year-end edition includes a Special Commentary identifying the **Top 10 California Legal Ethics Rulings of The Year**.

Comments about Ethics Quarterly should be directed to Daniel E. Eaton at eaton@scmv.com.

CASE NOTES

9.4.1 Fee Recovery

Case: *Sands & Associates v. Juknavorian* (2012) 209 Cal.App.4th 1269

Issue: May a prevailing law firm litigant in an action for unpaid fees against a former client recover attorney fees pursuant to a "prevailing party" contract clause where the firm was represented by "of counsel" attorneys at the firm who: (1) were held out to the public as such by listing the attorneys as "of counsel" on the firm's letterhead and in attorney directories; (2) submitted no evidence of how they were compensated, such as billing records indicating the firm had incurred fees; but who (3) were not on the firm's payroll?

Holding: **No**. The Court adopted a "bright line" rule: "When a law firm holds an attorney out to the public as 'of counsel,' the firm cannot recover attorney fees under a prevailing party clause when, as a successful litigant, it is represented by 'of counsel.'" (209 Cal.App.4th at 1298.) The Court of Appeal relied on the California Supreme Court's conclusion, in the context of vicarious disqualification of a firm where an of counsel attorney had a disqualifying conflict, that the essence of an "of counsel" relationship is that of a "close, personal, continuous, and regular relationship between a law firm and the attorneys affiliated with it as of counsel" making the of counsel and the firm with which the attorneys are affiliated a de facto single firm for purposes of conflicts analysis under Rule of Professional Conduct 3-310. (*Id*. at 1292-1293, citing *People ex. rel. Dept. of Corrections v. SpeeDee Oil Change Systems, Inc.* (1999) 20 Cal.4th 1135, 1153-1155.)

Because the relationship of the of counsel attorneys and the firm was so close, the Court of Appeal found that, in recovering unpaid fees from the former client, the of counsel attorneys were pursuing both the interests of the law firm and their own interests; the firm and the of counsel attorneys had the same interests. (209 Cal.App.4th at 1296.) Because the of counsel attorneys and the law firm were de facto a single entity, there could be no attorney-client relationship between them triggering a right to fees. (*Id*. at 1297.)

"In granting the motion for attorney fees, the trial court awarded the [law] firm $25,234 in attorney fees for having recovered $24,250.95 in unpaid fees from [the former client]. If the [law] firm had pursued the unpaid fees by using one of its partners, members, or associates, it would not have been allowed to 'double' its recovery; the trial court would have erred in granting the motion for attorney fees. Permitting such a recovery when a law firm uses an attorney who has a close, personal, continuous and regular relationship with it – where the law firm and the attorney constitute a single de

facto firm – would result in disparate treatment between attorney litigants and nonattorney litigants, contrary to the purpose of Civil Code section 1717," requiring prevailing party attorney fee clauses in contracts to be reciprocal. (*Id*. at 1297, internal quotation marks and citations omitted.)

The Court of Appeal distinguished *Dzwonkowski v. Spinella* (2011) 200 Cal.App.4th 930 in which the Court of Appeal held that an attorney-sole practitioner who prevailed in a fee dispute arbitration against a former client was entitled to recover attorney fees as costs when the attorney was represented by another attorney-sole practitioner officed in another city who was "of counsel" to the prevailing attorney's law offices. In *Dzwonkowski*, there was no indication that the of counsel attorney was held out to the public as such, such as by being listed on the other sole practitioner's letterhead. Indeed, there was no evidence that anyone other than the two sole practitioners knew of the of counsel arrangement. There also was no evidence in that case of a close, personal, continuous and regular relationship between the two attorneys. (209 Cal.App.4th at 1299.)

Note: There is an extensive discussion in this lengthy opinion of the law of fee recovery by self-represented attorneys (pp. 1278-1288) and the various forms and purposes of of counsel relationships (pp. 1288-1294).

9.4.2 Anti-SLAPP, CCP § 425.16 – Attorney Activity Covered By

Case: *Chodos v. Cole* (2012) 210 Cal.App.4th 692

Issue: An attorney was sued by a former client for malpractice in connection with the attorney's representation in, and settlement of, a marital dissolution and related proceedings. The attorney cross-complained against other attorneys (hereafter "independent counsel") for indemnification on the ground that those other attorneys had allegedly provided concurrent, independent advice to the client, including reviewing the attorney's work and recommending that the client accept a settlement the terms of which the client now claimed were the result of the cross-complaining attorney's malpractice. Was the attorney's cross-complaint against the other attorneys properly dismissed pursuant to the anti-SLAPP statute?

Holding: **No**. The Court of Appeal, 2-1, found that the thrust of the cross-complaining attorney's claim for indemnity against independent counsel was the latter's breach of their professional duty against the client. The claim for indemnity was thus conceptually indistinguishable from the client's claim against the cross-complaining attorney for malpractice, which also alleged breach of professional duty. Under *PrediWave Corp. v. Simpson Thacher & Bartlett LLP* (2009) 179 Cal.App.4th 1204, the anti-SLAPP statute does not apply to a client's claim against attorneys for conflict of interest and negligence.

"Because a client's action *against an attorney for a breach of duty by an act of malpractice* is not subject to the anti-SLAPP statute, logically [cross-complaining attorney's] action based on a *breach of duty by an act of malpractice* likewise should not be subject to the anti-SLAPP statute. The conduct of the attorney for purposes of the anti-SLAPP statute is the same as to the case of a client's claim against a former attorney and as to the claim here for indemnification. If an act of malpractice by an attorney alleged by a client is not petitioning or free speech under the anti-SLAPP statute, the same act for the same client should not be deemed to be such petitioning or free speech solely because it is the basis of a claim for indemnity by someone other than the client." (210 Cal.App.4th at 705, emphasis in the original.)

Notes: The Court of Appeal rejected the cross-defendant attorneys' claim that the entire appeal should be dismissed because the cross-complaining attorney did not include any of the four trial court transcripts of the motions that were the subject of the appeal and thus failed to present an adequate record on appeal. The Court of Appeal held that no transcripts were necessary. The legal issue in the trial court was whether the cross-

complaint was covered by the anti-SLAPP statute. The Court of Appeal decided only that issue and did not reach any issue regarding the appropriate award of attorney fees in connection with that determination. None of the parties relied on the oral argument in the trial court as to that issue. Moreover, no California "Supreme Court authority requires a transcript of the hearing in connection with whether the anti-SLAPP statute applies to a specific pleading." (210 Cal.App.4th at 700.)

Presiding Justice Paul Turner dissented. Justice Turner agreed with the cross-defendants that the appeal should be dismissed because of cross-complaining attorney's failure to submit a reporter's transcript of the proceedings below or to submit a settled statement.

On the merits, Justice Turner agreed with the trial court that the cross-complaint was properly dismissed pursuant to the anti-SLAPP statute. "The principal thrust of plaintiff's equitable indemnity cross-complaint is that the advice and negotiations engaged in by [independent counsel] contributed to [client's] legal practice damages. . . . Thus, the gravamen of [cross-complaining attorney's] claims, the injury-causing conduct, are the written and oral statements" of independent counsel. (210 Cal.App.4th at 719, Turner, P.J., dissenting, citations omitted.) Cross-complaining attorney's claim for indemnity against independent counsel constitutes a claim by nonclients against attorneys for litigation related advice and thus, under *PrediWave*, is categorically subject to dismissal under the anti-SLAPP statute. (*Id*. at 721-722.) Having found that independent counsel's alleged conduct constituted protected activity, Presiding Justice Turner went on to find that cross-complaining attorney had not met his burden of showing that his claim had the "requisite minimal merit" since, among other things, the cross-claim was barred by the litigation privilege found at Civil Code § 47(b). (*Id*. at 722.)

9.4.3 Rule 3-310: Avoiding Representation of Adverse Interests

Case: *Cole Asia Business Center, Inc. v. Manning* (C.D. Cal. 2012) 2012 WL 5349287

Issue: Was an attorney subject to disqualification from representing third party defendant against a complaining party whom the attorney previously had represented on two occasions, once to demand that a firm competing against the complaining party cease and desist from using complaining party's name and once in the preliminary stages of a licensing dispute?

Holding: **Yes**. The Court found that documents that the complaining party had submitted to the Court under seal established that the attorney was in actual possession of confidential information adverse to the complaining party in this action, specifically complaining party's confidential business plan, account volume, and litigation strategy. (2012 WL 5349287 at *2.) That created a disqualifying conflict of interest under California Rule of Professional Conduct 3-310(E).

The Court rejected the attorney's contention that complaining party had waived its claim of confidentiality over any communications it had shared with the attorney since the owner of an entity adverse to complaining party in this action was present for all of attorney's conversations with complaining party and was copied on all of their email correspondence. The Court agreed with the attorney that complaining party could not preserve the privilege by claiming that the owner of the other entity was a business associate present to further the purpose of the representation under section 952 of the California Evidence Code. "California courts have been strict about how far the business associate exception [to waiver of the attorney-client privilege] may be extended." (*Id*. at *3.) The Court found that the exception did not extend to communications with the attorney here where the two people merely "were representatives of different entities which apparently were associated with each other only through a contractual relationship." (*Ibid*.) The Court nonetheless held that it was enough to defeat this argument that complaining party had provided evidence of

"at least one instance of an apparently private communication with his attorney." (*Id*. at *3.)

The Court went on to note: "[I]f an attorney wishes to involve a third party in all communications with her client, that attorney would best fulfill her duty of loyalty to the client by obtaining the client's express consent and by explaining to the client any resulting waiver of confidentiality." (*Ibid*.)

9.4.4 Rule 3-310: Avoiding Representation of Adverse Interests

Case: *Chih Teh Shen v. Miller* (2012) __ Cal.App.4th __, 2012 WL 6619025

Issue: Is an attorney subject to disqualification who represents one of two 50% shareholders in both a derivative action nominally brought on behalf of the corporation and simultaneously represents the same 50% shareholder in a windup proceeding of the corporation, where the attorney had never been retained by, provided advice to, or been paid by the corporation?

Holding: **No**. The presence of the corporation as a nominal party in the derivative action did not create an attorney-client relationship between the attorney and the corporation. The attorney was listed only as counsel for the 50% shareholder. If the attorney were representing the corporation, there would be no need for the derivative action as the corporation itself would be pursuing the 50% shareholder's claim. (2012 WL 6619025 at *5.) The moving party, the other 50% shareholder, failed to meet his burden of proving that an attorney-client relationship existed between the attorney and the corporation. (*Ibid*.)

The Court of Appeal rejected moving party's alternative argument that, even in the absence of an attorney-client relationship between the attorney and the corporation, disqualification was warranted because there is an expectation that the attorney owes a duty of fidelity or confidentiality to the corporation. (*Id*. at *11-12.) Unlike in *William H. Raley Co. v. Superior Court* (1983) 149 Cal.App.3d 1043, there were no facts here analogous to a partner in the law firm representing the plaintiff in that breach of lease action serving as a director of a bank that managed a trust of the defendant's property. The director's position gave the firm partner access to confidential information about the defendant that could be useful to plaintiff's action. (2012 WL 6619025 at *11.) In this case, by contrast, the attorney was representing a 50% shareholder who had been frozen out of the corporation, eliminating any concern that the attorney had ongoing access to the corporation's confidential information. (*Ibid*. at note 8.) In *Morrison Knudsen Corp. v. Hancock, Rothert & Bunshoft* (1999) 69 Cal.App.4th 223, the law firm sought to represent a public water district in litigation against a company whose parent company the firm had previously represented. The firm also currently served as monitoring counsel of the parent corporation's insurance underwriters. The latter role gave the firm access to the parent corporation's litigation policies and strategies. In this case, by contrast, the attorney whose disqualification was sought had never represented the corporation or had a relationship with its insurers. (2012 WL 6619025 at *12.)

9.4.5 Rule 2-200: Fee Sharing Agreements Between Lawyers

Case: *Barnes, Crosby, Fitzgerald & Zeman, LLP v. Ringler* (2012) ___ Cal.App.4th ___, 2012 WL 6633855

Issue: May attorneys ("recipient attorneys") to whom a class action matter is referred by other attorneys ("referring attorneys") be equitably estopped from denying enforceability of a fee sharing agreement to which the original proposed class representative had agreed in writing where recipient attorneys: (1) later replace the original named class representative with two new class representatives from a list of potential class representatives that recipient attorneys obtained from referring attorneys; (2) did not disclose the fee-sharing arrangement to the new class representatives who therefore did

not give their informed written consent to the fee-sharing arrangement; and (3) declined to advise the trial court of the fee-sharing arrangement in seeking approval of the settlement of the class action?

Holding: **Yes**. The Court of Appeal held that the recipient attorneys could not rely on their own wrongdoing in failing to disclose to, and obtain the informed written consent of, the new class representatives to the fee-sharing arrangement required by Rule of Professional Conduct 2-200 as a defense to the enforcement of the fee-sharing agreement. The Court further held that recipient attorneys could not rely on recipient attorneys' failure to disclose the arrangement to the trial court in seeking approval of the class action settlement as a defense to enforcement of the fee-sharing arrangement.

Ordinarily, the failure of a client to give informed written consent to a fee-sharing arrangement results in invalidation of the agreement. (2012 WL 6633855 at *5, discussing *Chambers v. Kay* (2002) 29 Cal.4th 142, *Margolin v. Shemaria* (2000) 85 Cal.App.4th 89, and *Mark v. Spencer* (2008) 166 Cal.App.4th 219.) "*Chambers*, *Margolin*, and *Mark* uniformly recognize that an attorney cannot enforce a fee-sharing agreement if that attorney could have obtained written client consent as required by rule 2-200, but failed to do so." (2012 WL 6633855 at *5.) In addition, the Court of Appeal recognized that Rule of Court 3.769 requires an attorney seeking approval of a class action settlement to disclose any fee-sharing arrangement to the trial court. (*Id*. at *7.) Under the unique circumstances of this case, however, because the steps recipient attorneys took, including the calculated switch in class representatives, the referring attorneys were unable to protect their rights under the fee-sharing agreement.

The Court of Appeal concluded that the trial court should have allowed a trial on whether the fee-sharing agreement applied to the class action that ultimately settled and on whether the recipient attorneys were equitably estopped from claiming the fee-sharing agreement was unenforceable due to non-compliance with rule 2-200. "No doubt the [trial] court felt that its hands were tied by existing precedent. Indeed, *Chambers*, *Margolin*, and *Mark* hold that an attorney who willfully or negligently violates rules 2–200 and 3.769 will be denied judicial enforcement of a fee-sharing agreement. These cases serve the important public policy objectives of (1) motivating attorneys to comply with the rules' disclosure and consent requirements, and (2) protecting clients from excessive fees and unfavorable litigation tactics. But those objectives are circumvented when one attorney refuses to comply with the rules' disclosure and consent requirements and inequitably blocks the other attorney from doing so. In such a case, the offending attorney is equitably estopped from wielding rule 2–200 as a sword to obtain unjust enrichment. Defendants assert "there is no 'bad guy' exception to' rule 2–200. Under the unique circumstances presented by this case, defendants are wrong." (*Id*. at *8.)

Note: The underlying class action settlement included a fee award of $13.5 million.

9.4.6 Rule 3-310: Avoiding Representation of Adverse Interests

Case: *Advanced Messaging Technologies, Inc. v. Easylink Services International Corp.* (C.D.Cal. 2012) 2012 WL 6618239

Issue: A law firm assigned as temporary "outside in-house counsel" for intellectual property matters to the defendant owner corporation of two other defendant corporations in three patent infringement actions knowing the attorney had represented plaintiff in prior actions at his prior law firm. The attorney: (1) had spent 15 months, while employed at his prior law firm working on a team of attorneys representing plaintiff in prior actions, billing about 235 hours for the work, and doing such tasks as discussing discovery strategies, and reviewing and revising motions for plaintiff in litigation concerning three of the four patents in the current case; and (2) had sent, received, or was copied on over 120 emails to or from plaintiff's General Counsel, including emails addressing the relevance of a key witness in the current actions to an affirmative

defense asserted in the current actions. Was disqualification of law firm representing defendants, with whom attorney conferred in his capacity as outside in-house counsel, required where the law firm whose disqualification was sought first learned of the attorney's prior work for plaintiff shortly after the deposition of the key witness, at which point the firm screened the attorney from the actions; the attorney did not recall ever having access to plaintiff's confidential information; and since attorney's work for plaintiff, the patents at issue in these actions had been reexamined by the Patent and Trademark Office and their claims had been altered to varying degrees?

Holding: **Yes**. The Court affirmed the rule that "a federal court in California must apply California law in a disqualification motion." (2012 WL 6618239 at *5, citing *In re County of Los Angeles* (9th Cir. 2000) 223 F.3d 990, 995.) The Court rejected dicta in a footnote in *Openwave Systems, Inc. v. 724 Solutions (US) Inc.* (N.D. Cal. 2010) 2010 WL 1687825 suggesting that California federal courts are free to disregard California law in deciding motions to disqualify. (2012 WL 6618239 at *5.)

The Court next found that the attorney presumptively had confidential information about plaintiff since there was a substantial relationship between the matters on which he worked for plaintiff during his previous employment and the current patent actions, particularly his work related to three of the four patents at issue in these actions. (*Ibid*.) The reexamination of the patents and alteration of their claims since the attorney's work for plaintiff did not undermine this conclusion; all that is required to find that the matters are substantially related is "a rational link between the subject matter of the two cases." (*Id*. at *6, citing among other cases, *Jessen v. Hartford Cas. Ins. Co.* (2003) 111 Cal.App.4th 698, 711.) "Anything more than a 'rational link' test would effectively require a mini-trial on the merits, entailing a comparison of the patents as they existed initially with any subsequent modifications. . . . Such a time-consuming process would add little value. The court would still not know whether the former attorney may have, even unwittingly, communicated . . . information about" the former client that might give counsel an unfair advantage in the litigation. (*Id*. at *6, note 6.)

It also did not matter that the attorney was a junior associate at his former firm when he served on the team representing the plaintiff or that the attorney's role on the team was assertedly too limited to presume the attorney had acquired confidential information about the plaintiff. "[A] de minimis level of involvement in a prior case is sufficient for presuming that an attorney acquired confidential information about that prior case." (*Id*. at *7, citing *Pound v. DeMera DeMera Cameron* (2005) 135 Cal.App.4th 70, 73-74.) In any event, the Court found that the attorney's experience and the extent of his work for plaintiff in the prior cases were significant. "In some of this work, such as discussing discovery strategies and participating in the creation and editing of motions and pleadings, the likelihood that he learned confidential information is readily apparent. In others, such as reviewing prior art, the risk may seem less likely. However, confidential information may guide prior art reviews – such as instruction from a partner or client about the weaknesses of certain features." (*Ibid*.)

In resolving an issue of first impression, the Court found that the law firm whose disqualification was sought presumably had the same confidential information about plaintiff that the attorney detailed to defendant as outside in-house counsel had obtained in previous employment even though that attorney did not work for the law firm whose disqualification was sought. The Court found analogous cases in which another firm that was co-counsel with a tainted attorney was vicariously disqualified and rejected as unpersuasive district court rulings that had reached the opposite conclusion. The tainted attorney served as defendant's "outside in-house counsel for intellectual property matters, and the three current cases are high-stakes, complex patent matters. The importance of in-house counsel effectively cooperating, coordinating, and communication with their company's attorneys [i.e., outside counsel] is self-evident." (*Id*. at *8, bracketed text added, initial capitalization omitted.)

The Court then found that the presumption was irrebutable and disqualification was

mandatory. Law firm's screening of the attorney was ineffective and untimely because the law firm whose disqualification was sought was unaware of the attorney's former work for plaintiff until after the deposition of a key witness, eight months after the attorney began serving as defendant's outside in-house counsel. (*Id*. at *10.)

Notes: This was one of three substantially identical rulings in the current actions. The other rulings are *j2 Global Communications, Inc. v. Captaris Inc.* (C.D.Cal. 2012) 2012 WL 6618272 and *j2 Global Communications, Inc. v. Easylink Services International Corp.* (C.D.Cal. 2012) 2012 WL 6618609.

The Court considered disqualification of law firm "unfortunate, because there is not a molecule of evidence that [law firm] did anything other than act with integrity and in a manner consistent with the highest traditions of the legal profession." (*Id*. at *1.) The Court praised the professionalism of law firm's attorneys in the matter and characterized law firm as an innocent victim of the outside in-house counsel's law firm's "inexplicable decision" to detail the attorney to the defendant knowing the attorney previously had represented plaintiff. But, the Court added, law firm's innocence did not prevent its disqualification. "Motions to disqualify are not about punishing guilty parties. They are primarily about preserving public trust in the scrupulous administration of justice and the integrity of the bar." (*Id*. at *10, internal marks and citations omitted.)

As a remedy, in addition to disqualifying law firm, the Court ordered the General Counsel of the defendant corporation that owned the other two defendants screened from the current cases as well as all in-house attorneys who "substantively discussed" the three cases with the tainted attorney. (*Ibid*.) The Court further authorized disqualified counsel to transmit to successor counsel its written files in these actions, including discovery exchanged between the parties and the pleadings. Non-public documents from disqualified law firm, however, could only be shared if a partner could attest that the documents did not contain any information provided by the tainted attorney. (*Id*. at *11.) Defendants also were required to reimburse plaintiff for fees and costs associated with the motion to disqualify. (*Ibid*.)

Important Update: No case abstracted in the previous edition of Ethics Quarterly has been accepted for review or otherwise rendered uncitable.

Disclaimer: Counsel should read the full text of the cases discussed before relying on the necessarily limited discussion of them here. Counsel also should be mindful that some of the Court of Appeal cases addressed may be subject to depublication or review by the California Supreme Court. All cases should therefore be checked to confirm they are citable.

COMMENTARY: Consequential Roles: The Impact of an Attorney's Function on Client Rights

Daniel E. Eaton[1]

Introduction

Sometimes issues of legal ethics are raised in unconventional settings where the attorney's function in relation to his client results in material consequences to his client. May a prevailing client-law firm collect attorney fees in a fee dispute with a former client if the firm is represented by an attorney who is "of counsel" with the firm? Must a client an attorney serves as temporary "outside in-house counsel" be deprived of defense counsel of its choice in pending patent litigation because the temporary in-house outside counsel once worked on substantially related matters at a former firm. According to cases abstracted in this issue of *Ethics Quarterly*, the answer to the first question is no and the answer to the second question is yes. The rulings in both cases devote considerable attention to the particular role the attorney played and why it compelled the answer to the question presented.

A. *Sands & Associates v. Juknavorian*: Of Counsel Attorney as Law Firm's Counsel in Fee Dispute

The question in *Sands & Associates v. Juknavorian* (2012) 209 Cal.App.4th 1269 (EQ, 9.4.1) was whether a law firm could collect attorney fees as the prevailing party in a fee dispute with a former client when it was represented by attorneys whom the firm held out to the public as being of counsel with the firm. The Court of Appeal held that the firm could not.

An of counsel attorney held out to the public as such, said the Court, necessarily has a relationship with the affiliated firm that is close, personal, continuous, and regular. Consequently, a firm represented by an of counsel attorney in a fee dispute with a former client is a firm that is essentially representing itself, as it indisputably would be if the firm were represented by a partner or an associate. And, under *Trope v. Katz* (1995) 11 Cal.4th 274, a firm or lawyer representing itself or himself is not entitled to recover attorney fees as a prevailing party under Civil Code section 1717 any more than a non-attorney representing himself could. "Permitting such a recovery when a law firm uses an attorney who has a close, personal, continuous and regular relationship with it – where the law firm and the attorney constitute a single de facto firm – would result in disparate treatment between attorney litigants and nonattorney litigants, contrary to the purpose of Civil Code section 1717," requiring prevailing party attorney fee clauses in contracts to be reciprocal. (*Sands & Associates*, 209 Cal.App.4th at 1297, internal quotation marks and citations omitted.)

But, to borrow a phrase from the classic movie *Animal House*, what if the law firm and the attorney had established a "double secret" of counsel relationship? What if: (1) the of counsel attorney did not appear on the law firm's letterhead or in attorney directories; and (2) the law firm were in one city and the of counsel attorney in another?

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[1] *Daniel E. Eaton, Publisher of Ethics Quarterly, is a partner in the law firm of Seltzer Caplan McMahon Vitek, and a former Chairman of the San Diego County Bar Association's Legal Ethics Committee. The views expressed here are his own.*

Those were the facts in *Dzwonkowski v. Spinella* (2011) 200 Cal.App.4th 930, in which a sole practitioner was indeed allowed to recover fees he incurred being represented by another sole practitioner in a fee dispute. It was on the basis of those facts that the *Sands & Associates* court distinguished that case. In other words, the form the particular of counsel function takes may affect the rights of the client to recover fees in a particular case.

B. *Advanced Messaging Technologies, Inc. v. Easylink Services International Corp.*: Selection of In-House Counsel Results in Disqualification of Outside Counsel

Clients occasionally ask their outside law firm counsel to lend an attorney to them to serve as temporary in-house counsel. Such a request may come when a client is facing pressing challenges in a particular area of the law in which the law firm has staff with expertise, such as intellectual property. The specific lesson of *Advanced Messaging Technologies, Inc. v. Easylink Services International Corp.* (C.D.Cal. 2012) 2012 WL 6618239 (E.Q. 9.4.6) is that a law firm should not lend an attorney whose work at a prior firm involved representing, in prior cases, a party now adverse to the client in pending litigation in the very area of the law in which the loaned attorney will be serving the client. In that case, the result of the unfortunate loan was that the client was deprived of its defense counsel, a different law firm, in three complex patent lawsuits with whom outside in-house counsel conferred in that role.

In *Advanced Messaging Technologies*, the client was defending three significant patent lawsuits brought by the same corporate plaintiff. The client asked one of its outside law firms, not an outside law firm defending the client in the pending litigation, to assign an attorney to fill the role of in-house counsel for intellectual property and patent lawsuits. Outside law firm did a conflict check and learned that the attorney it planned to assign the client had, while at a previous law firm, been part of a team representing the plaintiff in prior patent and intellectual property matters, some of which it turned out overlapped with the pending matters. Plaintiff was never asked to sign a waiver of the conflict. (*Id*. at *3.) The law firm made the assignment to the client anyway, reasoning that the attorney had been a junior associate at the time he had been part of a team of attorneys doing work for the plaintiff. (2012 WL 6618239 at *1.) The designating firm also relied on the designated attorney's representation to the firm that he did not recall having had access to any of the plaintiff's confidential information and that his work for the plaintiff "involved primarily the review of publicly available patent documents." (*Id*. at *2.)

The designated attorney told the client's General Counsel that, when he was at his former law firm, he had done a public art search relating to one of the patents at issue in the pending lawsuits, but the General Counsel did not take that as meaning that the attorney had done work for the plaintiff. (*Id*. at *3.) Moreover, the patents at issue in the current litigation had been subject to reexamination by the U.S. Patent and Trademark Office and the claims had been altered since the designated attorney's work for the plaintiff at his prior firm. (*Id*. at *6.)

None of that was enough to prevent disqualification of the outside law firm representing the client in the three matters, even though the outside law firm, unlike the designating firm, was unaware of the attorney's prior work for plaintiff when the outside

firm conferred with the outside in-house counsel in defending the client in the three pending matters. In addition, the client's own General Counsel was ordered screened, that is to say disqualified, from the pending matters against the plaintiff going forward. (*Id*. at *10-11.)

For the Court to find a substantial relationship between outside in-house counsel's work for plaintiff and the pending actions, it was enough that there was a rational link between the subject matter of the two sets of cases. (*Id*. at *6.) For the Court to presume that outside in-house counsel had acquired confidential information about the plaintiff in his prior work that would be useful in the pending matters, his involvement in those matters need only have been de minimus, though the Court found that his involvement in fact had been significant. (*Id*. at *7.) Since outside in-house counsel was tainted, his presumed cooperation, coordination, and communication with the company's General Counsel and outside defense counsel tainted them as well. (*Id*. at *8.) That would have been so even had the Court set aside its skepticism and accepted the defendant's argument that an outside in-house counsel designated to work on intellectual property matters played only a limited role in the pending cases. "[C]ases do not analyze how much work a tainted attorney performed in the cases for which disqualification is sought. Under the Vicarious Presumption Rule, once an attorney is presumed to have confidential information, her law firm is presumed to have it, too." (*Id*. at *9, citations omitted.) In short, it did not matter that temporary outside in-house counsel was a junior member of the team representing the plaintiff at his prior firm and it did not matter that his involvement in defending the current lawsuits was assertedly limited. Temporary outside in-house counsel having played both roles required disqualification of outside defense counsel with whom he had had contact.

The Court acknowledged the blamelessness of outside defense trial counsel in the situation, but was unable to conclude that anything less than disqualification was warranted. The purpose of the disqualification was not to punish an innocent law firm, but to preserve the public trust in the administration of justice. (*Id*. at *10.)

The role of outside in-house counsel may affect a client's rights in substantial ways. The overarching lesson of *Advanced Messaging Technologies, Inc. v. Easylink Services International Corp.* may be that an outside law firm should not make, and a client should not accept, the assignment of an attorney in that role who has done previous work of any substance for a current, and perhaps even reasonably foreseeable, litigation or transactional adversary.

Conclusion

The particular role an attorney assumes for his client may shape the dimensions of his client's rights. Courts may treat an of counsel attorney as an associate of a law firm the of counsel attorney represents in a fee dispute, depriving the law firm client of its right to collect prevailing party attorney fees. Courts may treat temporary outside in-house counsel as an associate of outside defense trial counsel in patent litigation for purposes of conflict of interest analysis, jeopardizing a client's right to defense counsel of its choice. Careful consideration therefore should be given of the potential consequences of a particular attorney assuming a particular role toward a particular client.

SPECIAL COMMENTARY: The Top 10 Legal Ethics Rulings of 2012

Daniel E. Eaton[1]

Introduction

Volume 9 of *Ethics Quarterly* abstracted 49 rulings from California state and federal courts. The issues addressed in the ten most-significant ethics-related rulings abstracted in this volume (one of the cases is actually from the very end of 2011, too late to be included on last year's list) range from the discoverability of attorney-directed witness statements to civility in oral advocacy to the ethical responsibilities of co-counsel brought to the team for trial. The underlying disputes in which these ethical issues were raised cover the spectrum of practice: personal injury, patent/intellectual property, ERISA, bankruptcy, family law, securities litigation, and criminal law, among others. Each case was chosen because its core holding is expected to transcend the specific practice area in which the case arose; each case was ranked based on how broadly and deeply that impact is expected to be felt in the evolving California law of lawyering.

1. ***Coito v. Superior Court*** (2012) 54 Cal.4th 480 (EQ 9.3.3): In this personal injury case, the California Supreme Court unanimously ruled that a witness statement obtained through an attorney-directed interview is entitled to at least qualified work product protection and may be entitled to absolute work product protection. (*Id*. at 499-500.) Where such a witness statement reveals the attorney's impressions or thought processes about the case -- a showing that the attorney resisting discovery must make on a case-by-case basis -- the statement is entitled to absolute work product protection and is not subject to discovery under any circumstances. (*Id*. at 495-496.) Even if an attorney-directed witness statement does not reveal the attorney's thought processes or legal theories, it is entitled to qualified work product protection, meaning that the party seeking discovery of the statement must show that if the statement were not produced, the party would suffer unfair prejudice in preparing its case or that the non-production would result in an injustice. (*Id*. at 499-500, citing C.C.P. § 2018.030(b).)

   The **significance of the case** – and it is, by far, the most significant ethics ruling of 2012 – is that it reinforces the paramount importance of an attorney's right and duty to treat as confidential information the attorney gathers in the process of working on a client matter. In generally shielding such statements from discovery, the ruling also underscores the duty of an attorney to gather, record, and evaluate even information that is harmful to the client's cause. "If attorneys must worry about discovery whenever they take a statement from a witness, it is reasonably foreseeable that fewer witness statements will be recorded and that adverse information will not be memorialized. . . . This result would derogate not

[1] *Daniel E. Eaton, Publisher of Ethics Quarterly, is a partner in the law firm of Seltzer Caplan McMahon Vitek, and a former Chairman of the San Diego County Bar Association's Legal Ethics Committee. The views expressed here are his own. Comments on the list may be sent to him at eaton@scmv.com.*

only from an attorney's duty and prerogative to investigate matters thoroughly, but also from the truth-seeking values that the rules of discovery are designed to promote." (*Id*. at 496-497.) In addition, in leaving undisturbed the trial court's ruling that an attorney who used an attorney-directed witness statement to cross-examine the witness at deposition had thereby waived work product protection, the Court also reminded counsel of the consequences of openly using work product in discovery and other interactions with the opposing party. (*Id.* at 500.)

2. ***In re: Pacific Pictures Corp.*** (9th Cir. 2012) 679 F.3d 1121 (EQ 9.2.4): In a dispute in which the petitioners included the heirs of the creator of Superman, the question was whether a party waives the attorney-client privilege as to third parties over assertedly privileged documents by producing those documents only to the federal government. The Ninth Circuit held that a party does waive the attorney-client privilege, even where the government promises the party it will not disclose the documents to third parties absent court order. The Ninth Circuit concluded that allowing a party to engage in selective waiver of the attorney-client privilege to the government would not advance the purpose of the privilege, which is to encourage a client to be candid with its own attorney. (*Id*. at 1127-1128.)

   The **significance of the case** comes from its focus on the rationale of one of the core ethical principles of the attorney-client relationship: that communications between attorney and client are kept secret from others to encourage frank and open communications between them. In this case of first impression in the Ninth Circuit, the Court explained that encouraging a party to be open with his lawyer is distinct from encouraging a client to cooperate with the government. The former is promoted and protected by the federal attorney-client privilege as it now stands; the latter, absent Congressional action, is not. (*Ibid*.)

3. ***Valdez v. Kismet Acquisition, LLC*** (S.D. Cal. 2012) 474 B.R. 907 (EQ 9.3.5): The district court reviewed a bankruptcy court order sanctioning counsel for client advice and court filings to impede the transfer of certain foreign assets. The question presented was whether the bankruptcy court was required to consider the extent of sanctioned counsel's responsibility for the opposing party's loss and the extent of counsel's ability to pay the high-six-figure sanctions award. The district court held that, even though sanctions were warranted, the bankruptcy court had erred in not considering the relative fault of sanctioned counsel, on the one hand, and the fault of the client and co-counsel, on the other hand, in causing harm to the opposing party and in not considering the ability of counsel to pay in determining the size and scope of the sanctions award. The district court concluded that sanctions need to be tailored to the relative harm caused by this particular attorney and to the ability of this particular attorney to pay the amount of the sanctions.

   The **significance of the case** is that, first, it is a reminder that an attorney may be sanctioned for filing even meritorious objections solely for the purpose of delay. Motive matters. Second, the ruling suggests that in imposing sanctions, the court must consider the relative responsibility of all of those who caused harm to the

opposing party or the administration of justice, including all involved counsel and the client, not just one of several participants in the misconduct. Proportionality matters. Third, in imposing sanctions, a court must consider the sanctioned attorney's ability to pay the amount of the sanctions. Wherewithal matters. In *Haynes v. City and County of San Francisco* (9th Cir. 2012) 688 F.3d 984 (EQ 9.3.6), the Ninth Circuit addressed a related question of first impression in the circuit to hold that a district court must take into account an attorney's ability to pay when imposing sanctions pursuant to 28 U.S.C. § 1927.

4. ***Kilopass Technology Inc. v. Sidense Corp.*** (N.D.Cal. 2012) 2012 WL 1534065 (EQ 9.2.7): The issue in this case was whether a party, and by extension its attorney, had preserved the attorney-client privilege where: (1) outside counsel contracted with a vendor to search and sort electronic documents for privilege; (2) the list of the party's past lawyers and law firms provided to the vendor, which outside counsel had obtained from the party, failed to include lawyers and firms that provided early corporate work for the party; (3) vendor mistakenly did not run the privilege search across all production batches of documents and did not run all search terms provided by outside counsel; (4) after receiving the production batches from the vendor just days before production was due, the party's attorneys and paralegals conducted spot checks, but the privileged documents escaped manual screening due to the tight timeline for production; and (5) where, as a result, the party claimed that more than 1 in 50 documents the party produced was privileged. The Court held that the attorney-client privilege had *not* been preserved under these circumstances. The Court found that the party's screening procedures had been unreasonable. "This is not a case where a few privileged documents in a large batch slipped through otherwise robust screening procedures. Even where a small number of privileged documents are disclosed in a large batch, privilege may be waived where the screening procedures were particularly unreasonable." (*Id*. at *3, citations omitted.)

   The **significance of the case** is that it focuses attention, in the widely discussed and rapidly evolving area of the discovery of client's electronically stored information ("esi"), on one of the attorney's most inviolable duties: the duty to preserve client secrets. The ruling suggests that considerable care must be taken at every step of esi discovery: from selecting any outside vendor, to providing search terms and other instructions to the vendor, to reviewing the vendor's work product before producing the information to the opposing party. The more of these steps that are later found to have been inadequate, the greater the risk a court will order a client's most confidential information ultimately surrendered to the adverse party.

5. ***Resilient Floor Covering Pension Fund v. Michael's Floor Covering, Inc.*** (N.D.Cal. 2012) 2012 WL 3062294 (EQ 9.3.7): In this ERISA case brought by pension trust funds against the alleged successor of a sponsoring employer, the question was whether the attorney-client privilege and work product protection had been waived over a pre-litigation email sent by plaintiffs' counsel to plaintiff-fund's trustee that detailed plaintiffs' counsel's preliminary understanding of the facts of the case and the legal merits of potential claims, where the trustee

forwarded counsel's email to a non-party union official asking whether defense counsel had a conflict of interest and where, through a series of additional forwards, the email wound up in the hands of various union members and defense counsel himself. The Court found waiver, even though the original email had been headlined "Attorney-Client Privileged/Attorney Work Product." The disclosure of the memo to the pension officials up the email chain, said the Court, had not been designed to further a joint litigation effort and was inconsistent with keeping secrets in an adversary system.

The **significance of the case** is that it may make it advisable for attorneys to admonish clients, especially certain employees of organizational clients, not to forward confidential information from the attorney to unnecessary others. At least in federal court, even an attorney's candid assessment of the strengths and weaknesses of a client's position – and this logically applies to the litigation and transactional contexts alike – may wind up in the hands of an opposing party if sufficient care is not taken. The addition of the phrase "Do Not Forward," in the subject line of an email to a client representative the attorney is concerned may be tempted to share attorney information with others, may go a long way to preventing over-forwarding in the first place.

6. ***Little v. Amber Hotel Co.*** (2011) 202 Cal.App.4th 280 (EQ 9.1.2): An attorney brought an action for tortious interference with the attorney's fee lien and for interference with an attorney's further relationship with his longstanding clients against the opposing party in the underlying action. The Court of Appeal ruled that the attorney had established that his clients had breach an enforceable contractual duty to the attorney regarding the lien when the clients settled the underlying action with the opposing party and forfeited their right to execute on the court-ordered prior fee award that was the basis of the lien.

   The **significance of the case** is that it qualifies both the client's right to settle his cause and the attorney's duty not to restrict that right to settle without the attorney's consent. The attorney's duty not to interfere with his client's right to settle without attorney consent has been California law for nearly 100 years. (See *Hall v. Orloff* (1920) 49 Cal.App. 745.) But a client's right to settle is not unqualified: "fee agreements containing reasonable limitations on the client's authority to settle an action are enforceable." (*Little*, 202 Cal.App.4th at 296, citing *Ramirez v. Sturdevant* (1994) 21 Cal.App.4th 904, 918.) The lien set forth in the fee agreement in this case did not transfer control of settlement from the clients to the attorney. "[R]ather, it obligated the [client-]parties to honor their contractual duties to [attorney] concerning his lien right to 'any attorney[] fee award made by the court,' regardless of how they chose to settle the action." (202 Cal.App.4th at 297, quoting fee agreement, footnote omitted.) And yet it was the opposing party, not the clients, that was held responsible for the lien. The opposing party was even made to pay for future business the attorney expected to lose from these clients because the opposing party induced abrogation of the fee lien, necessitating the lawsuit in which the clients were named as defendants. Beyond clarifying the scope of the enforceability of attorney liens against clients,

the ruling may curb outside interference with that aspect of the attorney-client relationship.

7. ***Sands & Associates v. Juknavorian*** (2012) 209 Cal.App.4th 1269 (EQ 9.4.1): The California Court of Appeal held that a law firm that prevailed in a fee dispute with a client may not recover contractual prevailing party attorney fees if the firm was represented by an attorney listed on the firm's letterhead and in attorney directories as of counsel to the firm. In light of that, there was no attorney-client relationship between the firm and the of counsel attorney representing the firm in the fee dispute. (*Id*. at 1297.)

   Beyond its comprehensive examination of the meaning and consequences of an of counsel/ law firm relationship, the **significance of the case** is to establish the importance of a genuine attorney-client relationship as a condition to recovering prevailing party attorney fees. A similar issue was addressed in *Rickley v. Goodfriend* (2012) 207 Cal.App.4th 1528 (EQ 9.3.8). In that case, the Court of Appeal held that a trial court should have considered the entitlement to fees of an attorney representing herself and her spouse in connection with post-judgment contempt proceedings in the context of a nuisance action against neighbors. In that context, it did not matter that the interests of the attorney and her spouse were indivisible and that their damages were identical. What mattered was whether the non-attorney spouse consulted the attorney spouse "in her professional capacity and whether their relationship in terms of this lawsuit, was for the purpose of obtaining legal advice." (*Id*. at 1538.) If the trial court found that the answer to both of those questions was yes, the trial court was directed to grant the request for fees. (*Id*. at 1539.) These two very different cases demonstrate that the award of fees to a prevailing party depends in part on whether the attorney and the represented party had a genuine attorney-client relationship. (See also *Kerner v. Superior Court* (2012) 206 Cal.App.4th 84, where an attorney-client relationship was found between former law firm partner's wife and another firm attorney in the context of a lawsuit brought by the husband-attorney against his former firm. The existence of the attorney-client relationship meant that the wife was not required to answer deposition questions about the legal advice the firm attorney had given her in earlier proceedings.)

8. ***Cole v. Patricia A. Meyers & Associates, APC*** (2012) 206 Cal.App.4th 1095 (EQ 9.2.14): The Court of Appeal in this case determined that co-plaintiffs' counsel in an underlying action in which summary judgment was granted may be held liable for malicious prosecution even if their role in the underlying case was limited to serving as trial counsel if the case went to trial. The Court concluded that if co-counsels' names appeared on pleadings and other filings as co-counsel of record and they were served with all filings in the case, they could be held liable if the underlying claims lacked merit. As counsel of record, putative trial counsel "had a duty of care to their clients that encompassed both a knowledge of the law and an obligation of diligent research and informed judgment." (*Id*. at 1117, internal quotation marks and citation omitted.)

   The **significance of the case** is to impose on attorneys assigned even a specific and limited role in a client matter indivisible duties to a client and potential liability to opposing parties along with the attorney with primary responsibility for handling the matter. The Court of Appeal rejected putative trial counsel's reliance on Rule of Professional Conduct 3-110(C), allowing an attorney with insufficient skill to join with counsel reasonably believed to be competent, as a basis for dismissing counsel from the malpractice action in an anti-SLAPP motion. The Court of Appeal acknowledged that California law allows the association of counsel and division of duties among counsel in handling client matters. An attorney associated into a matter regardless of role assumes the duty to be informed about the matter and risks liability if the matter turns out to have been maliciously prosecuted in whole or in part or otherwise mishandled. (*Id*. at 1117.) At least in litigation, there are ways for an attorney to protect himself from assuming duties and potential liability prematurely. "Attorneys may easily avoid liability for malicious prosecution without having to engage in premature work on a case if they refrain from formally associating in it until their role is triggered. Attorneys may also avoid liability if they refrain from lending their names to pleadings or motions about which they know next to nothing." (*Id*. at 1119-1120.)

9. ***Talon Research, LLC v. Toshiba America Electronic Components, Inc.*** (N.D.Cal. 2012) 2012 WL 601811 (EQ 9.1.10): Plaintiff's counsel in this patent dispute was disqualified where three of the seven lawyers representing plaintiff previously had had direct involvement in representing defendant in several patent disputes involving the same kind of technology as that in the current dispute. The Court concluded that the confidential information the attorneys may have received in the previous proceedings would be relevant in the current action. It did not matter that the patents in the previous and current proceedings were not identical. Imposing a literal matching requirement, said the Court, would emasculate Rule of Professional Conduct 3-310(E). That rule prohibits an attorney from accepting a matter adverse to a former client without the former client's informed written consent where the attorney has obtained confidential information material to the current representation. (*Id*. at *6.)

   The **significance of the case** is that it was a case of first impression addressing the Rule 3-310(E) substantial relationship test to successive patent actions. A

case decided later in the year in a different California federal district addressed a similar issue. In *Advanced Messaging Technologies, Inc. v. Easylink Services International Corp.* (C.D.Cal. 2012) 2012 WL 6618239 (EQ 9.4.6), the Court concluded that disqualification of counsel was warranted even where, since the former representation, the patents at issue had been reexamined by the U.S. Patent and Trademark Office and the claims of the patents had been altered to varying degrees.

10. ***People v. Whitus*** (2012) 209 Cal.App.4th Supp. 1 (EQ 9.3.10): The appellate division of the Superior Court upheld $750 in sanctions against an attorney who had failed to appear at several misdemeanor trial readiness conferences. The appellate panel spent little time discussing the merits of the appeal. Most of the ruling was spent describing the sanctioned lawyer's "parade of insults and affronts" to the appellate panel during oral argument. In lieu of monetary sanctions for counsel's offensive conduct, the Court ordered the clerk to send the opinion to the State Bar to consider disciplinary action against the attorney, expressing no view what, if any, discipline should be imposed.

    The **significance of the case** is its disapproval of particular conduct the Court considered disrespectful in oral argument. Among other things, counsel equated the appellate division with the fox watching the hen house. Under the California State Bar Act, attorneys have a duty to maintain the respect due to courts and judicial officers. (Bus. & Prof. Code § 6068(b).) The Court left no doubt that it believed counsel's behavior violated that directive. In referring counsel to the State Bar, the Court sent a message to this attorney and every member of the bar that incivility in oral argument is neither acceptable behavior nor effective advocacy. And that such behavior will have consequences.