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Is In-House Counsel A 'Competitive Decision-Maker'?

Law360, New York (May 30, 2014, 12:10 PM ET) -- "The advice of in-house counsel with specialized knowledge ... could be essential to the proper handling of [] litigation by outside counsel." —Judge Daniel Huyett III, former judge for the United States District Court for the Eastern District of Pennsylvania

The protective order is a multifaceted tool often used as a sword and a shield in litigation. It is becoming a staple in complex cases where the parties anticipate exchanging highly confidential information. Particularly, in patent litigation, the use of access-limiting strategies such as the "prosecution bar" and/or absolute caps on the number of in-house counsel with access to a party's confidential information are increasingly routine provisions in protective orders.

These provisions, and a party's interest in securing sensitive information, typically run headlong into the competing interest of corporate counsel who often need full access to case specifics to effectively manage favorable outcomes for the business. Indeed, with corporate legal spend stretched (and in-house managers seeking to extract every ounce of value from outside counsel), the need for information to pass seamlessly between company counsel and outside counsel is critically important, as is determining whether in-house counsel may receive an opponent's confidential information.

A party may be ordered to retain an "independent consultant," or worse, may be financially forced to proceed with litigation without access to the confidential information critical to the conduct of the case if an in-house lawyer is determined to be a competitive decision-maker. See, e.g., Brown Bag Software v. Symantec Corp., 960 F.2d 1465, 1465-72 (9th Cir. 1992). Indeed, an adverse outcome is more likely without the proper counsel in place to manage the litigation.

In a nutshell, bad things can happen when a company fails to identify the proper in-house lawyers to manage litigation. As such, below are a few practice tips to help legal departments avoid labeling key in-house litigators as competitive decision-makers. A simple questionnaire can help determine on an individual basis whether an in-house lawyer may be a competitive decision-maker.

The Principal Test: U.S. Steel

Confidential information access disputes are often "resolved" by using language in the protective order that closely tracks U.S. Steel Corp. v. United States, 730 F.2d 1465, 1468 (Fed. Cir. 1984) (holding "where in-house counsel are involved in competitive decisionmaking, it may well be that a party seeking access should be forced to retain outside counsel or be denied the access recognized as needed"). Thus parties generally limit access to confidential information to corporate counsel who exercise no competitive decision-making authority on the client's behalf.

This requires each party to determine on a counsel-by-counsel basis whether an in-house colleague must be shielded from confidential information based on that attorney's "activities, associations and relationships," such as giving business advice and/or participating in the client's decisions on pricing, product design, marketing or other business matters. This attorney-specific analysis is more easily articulated than applied, and an entire body of law has developed in view of this complexity. Still, the major principles controlling this analysis can be distilled into four simple considerations based on the seminal direction of U.S. Steel and its progeny.

The Four Considerations

An in-house lawyer's relationships and associations are an important consideration in whether she has decision-making authority. U.S. Steel explains that the dispositive test is whether the in-house lawyer represents "an unacceptable opportunity for inadvertent disclosure."

Generally, an in-house lawyer will be considered an unacceptable risk of inadvertent disclosure, and thus a competitive decision-maker, if she is:

- an officer of the corporation as well as an in-house lawyer and fails to provide a detailed affidavit describing the bounds of her corporate and legal duties;
- involved in design, pricing, sales or marketing decisions;
- the sole in-house counsel in the company advising the client on all types of legal matters; or
- operates as inside counsel for the company and as outside counsel for related entities.

Otherwise, an in-house lawyer is not likely an unacceptable risk of inadvertent disclosure because of status as in-house counsel, according to U.S. Steel, "cannot alone create that probability of serious risk to confidentiality and cannot therefore serve as the sole basis for denial of access."

1. The Dual Role of Officer and Attorney

One of the first rulings applying U.S. Steel was Carpenter Technology Corp. v. Armco, Inc., 132 F.R.D. 24 (E.D. Pa. 1990). In Carpenter, the district court considered whether two corporate counsel were an unacceptable risk of inadvertent disclosure and ultimately arrived at different conclusions for each attorney. The court concluded that plaintiff's senior staff attorney was not an unacceptable risk of inadvertent disclosure and that the company's director of law, conversely, was an unacceptable risk. The

staff attorney was not barred by the protective order because, among other things, he was neither a member of the company's board of directors nor a corporate officer. The director of law, by contrast, was also the company's assistant secretary and, more importantly, a complete "explanation of the extent of [his] involvement in competitive decisions" was lacking.

The court reasoned that "unlike [the staff attorney], [the director of law] does occupy the position of an officer with the corporation," and based on the staff attorney's affidavit, he "is not involved in the competitive decision making of [the company]." Principally, the failure to describe the scope of the director's nonlegal duties was determinative. Thus, where an in-house lawyer occupies a dual role as a corporate officer, the risk of inadvertent disclosure increases where the officer/attorney fails to provide a detailed explanation regarding the scope of his legal and nonlegal duties.

2. Counsel's Activities

Following Carpenter, the Federal Circuit further clarified U.S. Steel's bounds in Matsushita Electric Industrial Co. v. United States, 929 F.2d 1577 (Fed. Cir. 1991), by addressing whether a company's general counsel should be precluded from access to confidential information in view of his seniority within the company.

The court further strengthened its rule as articulated in U.S. Steel that status as in-house counsel cannot alone create that probability of serious risk to confidentiality and further held that the general counsel was not an unacceptable risk of inadvertent disclosure where he was not involved in product pricing or technical design decisions; he was not involved in selection of vendors of the competitive business terms contained in purchase orders; nor was he involved in decisions involving competing products or marketing strategies. The Federal Circuit also noted, "[i]t is a natural extension of the rule enunciated by this court in U.S. Steel that a denial of access sought by in-house counsel on the sole ground of status as a corporate officer is error."

Thus, Matsushita strengthened the in-house lawyer's right to access confidential information. The current legal landscape makes clear that regular contact with other corporate officials who make policy, or even competitive decisions, is irrelevant as to whether an in-house lawyer is an unacceptable risk of inadvertent disclosure, but rather that "advice and participation" in "competitive decisionmaking" remains the relevant inquiry.

3. The Sole Company Counsel

The Ninth Circuit subsequently applied these principles to companies with only one in-house lawyer in Brown Bag Software v. Symantec Corp., 960 F.2d 1465 (9th Cir. 1992). In Brown Bag, the court considered whether the plaintiff corporation's only lawyer should be barred by the protective order from receiving Symantec's confidential information, and the court concluded that the in-house lawyer should be barred.

Particularly, the court relied on the lower court's finding that Brown Bag's counsel "was responsible for advising his employer on a gamut of legal issues, including contracts, marketing, and employment." In holding that the lower court did not abuse its discretion in issuing the protective order, which shielded Brown Bag's in-house counsel from personal knowledge of a competitor's trade secrets, the court found an unacceptable risk of inadvertent disclosure and allowed access through an independent consultant only.

The court further adopted the lower court's reasoning that "counsel's employment would necessarily entail advising his employer in areas relating to Symantec's trade secrets" and that such knowledge would "place in-house counsel in an untenable position of having to refuse his employer legal advice on a host of contract, employment, and competitive marketing decisions lest he improperly or indirectly reveal Symantec's trade secrets." Accordingly, where an entity has only one lawyer who advises on multiple legal issues, including those that implicate the litigated subject matter, an increased risk of inadvertent disclosure exists, and a court will likely find that the in-house lawyer is a competitive decision-maker.

4. The Hybrid Outside/Inside Counsel Balancing Act

A fourth consideration has developed particularly in view of the proliferation of nonpracticing entities. In ST Sales Tech Holdings LLC v. Daimler Chrysler Co. LLC, 6:07-cv-346, (E.D. Tex. Mar. 14, 2008), the plaintiff — an Erich Spangenberg NPE — was barred from providing certain confidential information to its preferred counsel because, among other things, the lawyer held dual in-house and outside counsel responsibilities with several Spangenberg entities. The court concluded that the lawyer's involvement in Spangenberg's business enterprises was extensive and went "well-beyond the typical role of outside counsel, even outside counsel who might work with an entity for years."

Specifically, the lawyer served as general counsel for Spangenberg's consulting entity that "manage[d], acquire[d], and monetize[d] the patents for Spangenberg's many other patent-holding entities." He served in at least one Spangenberg entity solely in a business capacity; he was involved in the licensing of Spangenberg's patents after litigation; and there was no insulation between Spangenberg and the lawyer (i.e., the lawyer reported directly to Spangenberg). Thus, courts invite the parties to look at the totality of the facts surrounding an attorney's role in the relevant entities, including asset acquisition and active involvement in litigation and licensing — only where substantial involvement in these areas is found will there likely be an unacceptable risk of inadvertent disclosure.

Conclusion

When negotiating or interpreting the confidentiality terms of a protective order, counsel should be mindful that the default rule is that in-house counsel are no different than the outside attorneys litigating on the corporation's behalf. That is to say, a lawyer's status as in-house counsel is not sufficient by itself to form the basis for denial of access to the confidential information. If a dispute arises concerning whether an in-house attorney is a competitive decision-maker, the party seeking access should offer a complete and thorough affidavit for each counsel seeking access to the confidential information, detailing their legal and nonlegal responsibilities (if any). Public policy and current jurisprudence suggest that an in-house lawyer should rarely be denied access because corporations are entitled to their chosen representation.

Practical Tips For Corporate Counsel

1. Provide an affidavit. In numerous cases, a detailed and uncontroverted affidavit explaining the in-house lawyer's responsibilities and disclaiming direct responsibility for competitive decision-making was held sufficient to overcome any putative allegation that confidential information would be inadvertently disclosed; the affidavit must, at a minimum, include:

- a disclaimer of any direct responsibility for competitive decision-making,
- explanations of the in-house counsel's duties, and

- a statement that the in-house lawyer's expertise is necessary to effectively manage the matter.

Compare FTC v. Whole Foods Mkt. Inc., No. 1:07-cv-1021-PLF, (D.D.C. July 6, 2007) (holding that Roberta Lang was not an unacceptable risk of inadvertent disclosure where she provided an uncontroverted sworn declaration), and Volvo Penata of the Americas v. Brunswick Corp., 187 F.R.D. 240, 243 (E.D. Va. 1999) ("the Court cannot overlook the unrebutted and sworn assertions that Ms. Behnia has no role whatsoever in Brunswick's competitive decisionmaking"), with Carpenter Tech., 132 F.R.D. at 28 (holding that Welty failed to explain in his affidavit what constituted "non-direct responsibility or authority Welty has over competitive decisions.")

2. Ensure that the duties of the in-house lawyer recipient are primarily legal, administrative or organizational and do not involve business decisions such as pricing, sales or marketing. See Intervet Inc. v. Merial Ltd., 241 F.R.D. 55, 58 (D.D.C. 2007) (holding that Jarecki-Black, the lead counsel from the plaintiff, was not an unacceptable risk of inadvertent disclosure where she was not involved in pricing, product design, selection of vendors, or purchasing and marketing decisions, and where she merely "provide[d] legal advice to management and serves as a part of the trial team ... [and] assign[ed] responsibilities for the actual prosecution of patents to others and ke[pt] management advised of the progress (or lack of it) in litigation.")

3. Create specialists within the company's legal function such that the same attorneys do not counsel the business unit on all issues. See Brown Bag, 960 F.2d at 1471 (holding that an unacceptable risk of inadvertent disclosure stemmed from placing in-house counsel in the untenable position of having to refuse legal advice on "a host of contract, employment, and competitive marketing decisions.") Thus, keeping legal reporting lines distinct by specializing minimizes this potential issue.

Corporate Counsel Questionnaire

If an in-house lawyer can answer each of the following questions in the negative, then he or she is not likely an unacceptable risk of inadvertent disclosure and should be permitted to receive the opponent's confidential information. If an in-house lawyer answers "yes" to any of these questions, an affidavit is certainly required addressing the affirmative response.

1. Counsel holds a dual role as an officer and legal counsel in the company.

2. Counsel is involved in production development or design, pricing, sales, marketing or market research decisions.

3. Counsel is the sole in-house lawyer.

4. Counsel occupies in-house attorney status as well as outside counsel status for related entities simultaneously.

5. Counsel's duties are more than legal, administrative or organizational.

6. Counsel is involved, either directly or indirectly, in competitive decision-making

7. Counsel's duties involve a host of legal topics such as contract, employment, IP, or other subject areas (i.e. duties are not narrow but rather broad).

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