CIVIL PROCEDURE

SELF STUDY

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Motions to Disqualify Corporate Counsel

by ALLEN B. GRODSKY

A potent weapon in any lawyer's arsenal is a motion to disqualify opposing counsel. If used successfully, it stops the opposing party in its tracks and forces an adversary to start over with a new lawyer. And for those on the receiving end of such a motion, it is crucial to know whether it should be granted or rejected. Courts have developed a four-factor test to assess the merits of a disqualification motion, but before we discuss that test, consider the following example.

Assume "Attorney A" is long-time litigation counsel for Widgetco Inc. Widgetco is being sued, and the opposing party deposes one of Widgetco's employees who is not named as a party in the suit but who has percipient knowledge of the underlying facts of the case. Attorney A defends the deposition of that employee and, at the start of the session, states on the record that he is appearing as counsel for the employee. A year later the employee steals company trade secrets and opens a competing business.

Widgetco then hires Attorney A to sue the former employee for misappropriation of trade secrets and unfair competition. Counsel for the former employee promptly files a motion to disqualify Attorney A on the ground that he has a conflict of interest because he was counsel for the employee during the deposition in the prior case. Is Attorney A out of luck and off the case? Not necessarily.

PERSONAL RELATIONSHIP REQUIRED

To win the disqualification motion, the former employee must first show that he or she was personally represented by Attorney A. In addition, the employee must show a "substantial relationship" between Attorney A's current and previous representation of the former employee (*Brand v. 20th Century Ins. Co.,* 124 Cal. App. 4th 594, 602 (2004)).

An attorney representing a corporation does not automatically have an attorney-client relationship with the organization's individual constituents (officers, directors, shareholders, employees) (Vapnek, Tuft, Peck & Wiener, *California Practice Guide: Professional Responsibility,* ¶ 3.90 (The Rutter Group, 2007)).

Rather, courts distinguish between a corporate counsel's representation of corporate officers, directors, and employees "in their representative capacities and the representation of those persons in their individual capacities." (*Koo v. Rubio's Restaurants, Inc.,* 109 Cal. App. 4th 719, 732–33 (2003).) As one court has stated, "[G]enerally, there is no individual attorney-client privilege between a corporation's attorney and individuals within the corporation unless there is a clear showing that the individual consulted the corporate counsel in the officer's individual capacity." (*Tuttle v. Combined Ins. Co.,* 222 F.R.D. 424, 429 (E.D. Cal. 2004).)

The preeminent case explaining this distinction is *Meehan v. Hopps* (144 Cal. App. 2d 284 (1956)), in which long-time corporate counsel represented the corporation in a suit against Stewart Hopps, a former officer and chairman of the board. Hopps moved to disqualify the corporation's counsel, arguing that he had spent many hours conferring with counsel, and had delivered to counsel memoranda and personal files relating to various legal matters in which the corporation was involved (144 Cal. App. 2d at 287, 290).

The court of appeal affirmed the trial court's denial of the motion to disqualify, holding that "[t]he attorney for a corporation represents it, its stockholders and its officers in their representative capacity" and in no way "represents the officers personally." (144 Cal. App. 4th at 290; *see also Talvy v. American Red Cross,* 205 A.D. 2d 143, 150, 618 NYS 2d 25, 29 (N.Y. Ct. App. 1984) ("Unless the parties have expressly agreed otherwise in the circumstances of a

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particular matter, a lawyer for the corporation represents the corporation, not the employees").)

The court concluded not only that the attorney could act adversely to Hopps, but also that he could use against Hopps any information that Hopps "was required by reason of his position with the corporation to give to that attorney." (144 Cal. App. 4th at 290.) Thus, as commentators have noted, "[t]he fact that counsel may have learned confidential information about [former officers now adverse to the company] does not disqualify counsel from continuing to represent the corporation." (Friedman, *California Practice Guide: Corporations* at ¶ 6:3.2 (The Rutter Group, 2007).)

The primary issue, then, on a motion to disqualify a lawyer who previously represented a client's employee is whether the former employee can establish that he or she had a *personal* attorney-client relationship with the company's litigation counsel (*Koo,* 109 Cal. App. 4th at 729). The rule against representation adverse to a former client does not apply when the relationship of attorney and client has never, in fact, been created between the attorney and the complaining party. (*See* 1 Witkin, *California Procedure* at § 151, p. 206 (4th ed. 1996).)

A formal contract is not necessary to establish that an attorney-client relationship exists (*Waggoner v. Snow, Becker, Kroll, Klaris & Kravis,* 991 F.2d 1501, 1505 (9th Cir. 1993) (applying California law)). On the other hand, the former employee's mere subjective belief that he or she was personally represented by corporate counsel is not sufficient (*Fox v. Pollack,* 181 Cal. App. 3d 954, 959 (1986)). Rather, it is the former employee's burden to prove that the totality of the circumstances reasonably implies an agreement by the company's lawyer not to accept other representations adverse to the former employee's personal interests (*Responsible Citizens v. Superior Court,* 16 Cal. App. 4th 1717, 1733 (1994)).

THE FOUR-FACTOR TEST

A federal court applying California law has cited four factors to use in assessing whether the totality of the circumstances reasonably implies an agreement of personal representation. The four factors are: (1) the nature and extent of the contacts between the attorney and the purported client; (2) whether the purported client divulged confidential information to the attorney; (3) whether the attorney provided the purported client with legal advice; and (4) whether the purported client sought or paid for the attorney's services (*Fink v. Montes,* 44 F. Supp. 2d 1052, 1060 (C.D. Cal. 1999)).

Attorney contacts. The first factor of the *Fink* test involves the nature and extent of the contacts between the attorney and the former employee. California case law does not address whether a corporate lawyer whose sole contact with a corporate employee is to prepare him or her for deposition and/or to defend the employee at deposition is by reason of that contact alone disqualified from representing the corporation in a lawsuit against the employee. However, cases from other jurisdictions generally provide that the corporate attorney is not deemed to represent the employee personally in such circumstances.

For example, in *Polin v. Kellwood Co.* (866 F. Supp. 140 (S.D.N.Y. 1994)) a former officer of a company met with the company's lawyers to prepare for his deposition in a lawsuit involving the company. In a later lawsuit against that same former officer, the district court held that the corporate lawyers were not automatically disqualified from representing the company because "[t]he mere fact that a corporate lawyer meets with an employee—or as here, an ex-employee—to prepare for a deposition, cannot make the employee the client of the lawyer." (866 F. Supp. at 142.)

Also instructive is *Spinello Cos. v. Metra Industries, Inc.* (2006 Westlaw 1722626 (D. N.J. 2006)), in which the defendant (a former officer) sought to disqualify Spinello's counsel because he had defended the officer at, and prepared him for, a deposition in a previous lawsuit involving Spinello. The court concluded that no personal attorney-client relationship existed between the company's counsel and the former officer (2006 Westlaw 1722626 at *6).

Courts have reached a different conclusion when the attorney specifically identifies himself or herself on the record as "counsel for the individual employee" (or the attorney remains silent when the employee identifies the attorney as personal counsel). For example, in *Advance Mfg. Technologies, Inc. v. Motorola, Inc.* (2002 Westlaw 1446953 (D. Ariz. 2002)), a former employee of Motorola met with Motorola's counsel to prepare for deposition. At the deposition, when asked by opposing counsel whether he was represented by an attorney, the former employee said he was represented by Motorola's lawyer. Motorola's lawyers "remained silent and did not deny or otherwise qualify [the former employee's] affirmative response." (2002 Westlaw 1446953 at *1.) The court determined that silence in the face of the potential client's expressed belief of representation made the belief an objectively reasonable one and, indeed, manifested the attorney's "implied consent to an attorney-client relationship." (2002 Westlaw 1446953 at *5.)

Similarly, in *E.F. Hutton & Co. v. Brown* (305 F. Supp. 371 (D. Tex. 1969)), the district court held that corporate counsel who represented a corporate officer at an SEC investigative proceeding, and at a bankruptcy hearing

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at which the officer testified, had a *personal* attorney-client relationship with that officer. Critical to the district court's finding in *E.F. Hutton* was the fact that in both proceedings the corporate lawyer made formal appearances as counsel for the individual officer (305 F. Supp. at 386–87). The court noted that though an attorney's appearance in a judicial or semi-judicial proceeding "creates a presumption that an attorney-client relationship exists between the attorney and the person with whom he appears," that presumption becomes "almost irrebuttable" when the attorney enters a "formal appearance" for that person (305 F. Supp. at 387, 391–92).

E.F. Hutton and *Advance Manufacturing Technologies* should be contrasted with *Waggoner* (991 F.2d at 1506), in which the Ninth Circuit found that no attorney-client relationship existed, in part, because the lawyer was identified as "corporate counsel" both at trial and during a deposition of his client's former officer.

In addition, in today's legal world it is not uncommon for depositions to be videotaped and for the videographer to ask for "appearances of counsel," which are part of the video record (and sometimes part of the stenographic record as well). To avoid any confusion, then, corporate counsel defending an employee should always state that he or she is representing the witness in the witness's capacity as an employee of the company, and not individually. Counsel must also be careful in objecting to document requests served with deposition notices for a client's employee: Those objections should clearly indicate that they are made on behalf of the deponent *as an employee,* not as an individual.

Confidential information. The second *Fink* factor analyzes whether the former employee divulged confidential information to the attorney (44 F. Supp. 2d at 1060). The confidential information to which the *Fink* court refers concerns the individual employee; it is not confidential information relating to the business of the corporation.

A court will look at whether the confidential information was disclosed to the attorney in a situation in which the employee had an expectation of privacy. In the *Spinello* case noted above, the court held that the corporate employee had no expectation of privacy in conversations with a corporate lawyer about issues relating to the corporation. It acknowledged that the former employee had conversations with the company lawyer in preparation for his deposition, but observed that the confidential information exchanged was in regard to the company's business plan. The court then noted that all exchanges were for the benefit of the company, concluding that the employee "had no reasonable expectation of privacy regarding these conversations to the exclusion of … Spinello Companies when they were made and cannot claim they are confidential now." (*See* 2006 Westlaw 1722626 at *5.)

Accordingly, a company attorney may consider having a company officer present during preparation sessions for the deposition of a company employee; with the officer present, the employee can have no reasonable expectation of privacy.

Legal advice. The third *Fink* factor addresses whether the corporate lawyer provided the former employee with legal advice. Again, the court will be looking to see if personal legal advice has been given, apart from legal advice regarding company business. (*See Tuttle,* 222 F.R.D. at 429 (no attorney-client privilege because employee did not seek legal advice from corporate attorneys "in a personal capacity"); *U.S. v. Keplinger,* 776 F.2d 678, 700 (7th Cir. 1985), cert. denied, 476 U.S. 1183 (1986) ("Defendants do not dispute the attorney's testimony that defendants never explicitly sought individual legal advice or asked about individual representation").)

Obviously, explaining to a witness the rules of a deposition and general practices in responding to questions should not be considered personal legal advice (upon which a later disqualifying motion could be based). Such advice simply protects the company's interests and is consistent with a finding that the law firm represented the person only as an employee of the company and not as an individual.

If the individual officer or employee is potentially a party to the case, it is much more likely that corporate counsel can be shown to have provided personal legal advice. In such a situation, in which the employee's personal interests are at stake, a court could easily conclude that the lawyer's representation of the employee was personal in nature.

Who paid? The fourth and final *Fink* factor is whether the former employee sought out or paid for the services of the corporation's attorney. In the usual situation involving the deposition of a corporate employee, the company—not the employee—seeks out representation by the corporate attorney. This is often reflected in the retention agreement. Thus, one court found no attorney-client relationship between company counsel and a former CEO because the engagement letter limited the engagement to the company's intellectual property matters (*Synergy Tech & Design Inc. v. Terry,* 2007 Westlaw 1288464 (N.D. Cal 2007)). Typically, the attorney will be compensated by the company and not by the individual. In the *Synergy* case, the court found no attorney-client relationship, based in part on the fact that the corporation was "billed for or paid for all of the filing fees and expenses" (2007 Westlaw 1288464 at *8). Lawyers representing a corporation should therefore take extra care when defending the deposition of a client's employee.

Whenever an attorney enters an appearance—whether during a deposition or at the courthouse—care should be taken to make clear the identity of the client, especially if corporate entities and individual corporate employees are involved in the case. One never knows if a corporate client's employee will turn into an adversary who might seek to have the company's lawyer removed from a future case.

Allen B. Grodsky is a partner at Grodsky & Olecki in Santa Monica, specializing in intellectual property, entertainment, and business litigation.

Motions to Disqualify Corporate Counsel

1 To win a disqualifying motion, a former employee must show that the company's lawyer had been his or her personal counsel.
❑ True ❑ False

2 To win disqualification, the former employee does not have to show a "substantial relationship" between the lawyer's previous representation and the present case.
❑ True ❑ False

3 Corporate counsel automatically has a personal attorney-client relationship with the company's officers, directors, and employees.
❑ True ❑ False

4 There is no distinction between representing a corporate officer in his or her representative capacity and representing the same person in an individual capacity.
❑ True ❑ False

5 A formal contract is not necessary to establish an attorney-client relationship.
❑ True ❑ False

6 The party moving to disqualify bears the burden of proving an attorney's agreement not to accept representation adverse to a former client.
❑ True ❑ False

7 On a disqualifying motion, courts may consider the nature and extent of the contacts between the opposing attorney and the moving party.
❑ True ❑ False

8 Preparing a client's employee for deposition does not automatically disqualify the lawyer from opposing the employee in a future case.
❑ True ❑ False

9 An attorney's silence can never be evidence of an implied attorney-client relationship.
❑ True ❑ False

10 An attorney's formal appearance on a person's behalf at a judicial proceeding may create a presumption that an attorney-client relationship exists.
❑ True ❑ False

11 At deposition, corporate counsel should always state that he or she is representing the witness as an employee, not as an individual.
❑ True ❑ False

12 When an employee is deposed, corporate counsel should serve any objections to document requests on behalf of the deponent as an individual, not as an employee.
❑ True ❑ False

13 A personal attorney-client relationship forms whenever an employee gives the attorney confidential corporate information.
❑ True ❑ False

14 When a company attorney prepares employees for deposition, no company officer should be present.
❑ True ❑ False

15 If counsel gives an employee advice regarding company business, the attorney will be automatically disqualified from a later case involving that same employee.
❑ True ❑ False

16 Explaining general deposition rules is not legal advice for the purpose of forming an attorney-client relationship.
❑ True ❑ False

17 An employee has a reasonable expectation of privacy during interviews or deposition preparation, even if a company officer is present.
❑ True ❑ False

18 A personal attorney-client relationship may arise if corporate counsel gives legal advice to a director who may become a party.
❑ True ❑ False

19 Evidence that an employer paid for an employee's legal services can later be used to dispute a disqualification claim.
❑ True ❑ False

20 The engagement letter between a company and its corporate counsel should not explicitly define the scope of the engagement.
❑ True ❑ False

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