

The Question of Privilege When Consulting the Law Firm's In-House Counsel

Law firms often designate one of their lawyers or a committee of their lawyers to serve as the firm's in-house counsel. But are confidential communications seeking legal advice by one of the firm's attorneys from its in-house counsel privileged? What if the advice sought concerns a possible conflict that has arisen with one of the firm's clients? Can privilege be claimed for that communication in a subsequent professional liability action brought by that client against the firm and its lawyers? Nationally, cases on this issue are split in their holdings and split in their reasoning. There is some non-binding federal case law in Pennsylvania suggesting that the communication is not privileged under these circumstances. See, e.g., *Koen Book Distribs. v. Powell, Trachtman, Logan, Carrie, Bowman & Lombardo, P.C.*, 212 F.R.D. 283, 286 (E.D.Pa. 2002) ("attorney-client privilege [is] not applicable in context of conflict with current client because firm's fiduciary duty to outside client was 'paramount to its own interest'").

In what was an issue of first impression in that state, the Supreme Court of Oregon considered this issue in *Crimson Trace Corp. v. Davis Wright Tremaine LLP*, ___ P.3d ___, 2014 WL 2457574 (Or.). In *Crimson Trace*, the defendant law firm represented a corporate client in a lawsuit brought against one of the client's competitors over possible patent infringements. The competitor asserted counterclaims, contending that the client's patent was invalid because it "had deceptively omitted material information when it submitted the patent to the Patent and Trademark Office." The counterclaims named one of the defendant law firm's lawyers as the one who had handled the allegedly deceptive patent application for the client, making the lawyer the one accused of perpetrating the deception. This thus raised the specter of a conflict between the client and the defendant law firm and its lawyers.

The accused lawyer and another lawyer involved in the litigation consulted a member of the committee of the defendant law firm lawyers acting as the firm's in-house counsel. Thereafter the attorney who had joined the accused attorney in the consult sent an email to the CEO of the client, in which the lawyer informed the CEO of the situation and stated: "I should advise you that someone could argue I have a conflict of interest in that I may be defending my partner at the same time as I am representing [you]. ... I frankly don't see this as an issue, but I do want you to know that you certainly have the right to consult with independent counsel to fully consider this."

The client offered to discontinue the lawsuit, but the defendant refused to abandon the counterclaims, contending that the client "had both procured the ... patent and litigated the claim of infringement over it in bad faith." As a result of these allegations, the defendant sought an award of attorney's fees as a sanction.

Meanwhile the client stopped paying the defendant law firm's bills, indicating, "[W]e did not like the status of the case and what we were getting for our money." Notwithstanding, the defendant law firm and its lawyers continued to represent the client in the matter and continued to consult with the in-house counsel committee about the sanction and nonpayment-of-fees issues. It even reached the point where the client's CEO informed one of the defendant lawyers that the client's board of directors had grown "hostile" to the defendant law firm. This led the defendant lawyers to believe that the client was contemplating a malpractice action against the defendant law firm and lawyers. Eventually the underlying matter settled, with the terms to be confidential.

This is where matters went from bad to worse. When one of the defendant lawyers "moved to file the settlement under seal ... he did so in a way that publicly disclosed certain details of the agreement and gave the impression that [the defendant] had conceded liability, which it had not." The defendant complained and the court found that this action was "intentional and damaging to [the defendant]" and was an act of bad faith by the client. As a result the court ordered the disclosure of the entire settlement agreement and imposed monetary sanctions against the client.

The client then brought a legal malpractice action alleging several instances of malpractice. Of most interest to the issue here, it accused the defendant lawyers of failing to advise of conflicts of interest created when the defendant in the underlying matter first asserted a request for sanctions. It also accused the defendant lawyers of charging "for work that was unnecessary, was of no value, and was performed in [the defendant law firm's] own interest at a time when [it] had a conflict of interest with the client."

In discovery the client sought production of the communications with the in-house counsel committee "about possible conflicts of interest in [the defendant law firm's] representation of [the client] that occurred during the period when [the defendant law firm] was representing [the client]." The defendant law firm and lawyers resisted that request, claiming attorney-client privilege and contending that such communications "involved the rendition of legal services by the firm's in-house counsel to the firm and its members." They also claimed work-product privilege for the communications made after the defendant law firm began to suspect that the client would sue.

The trial court found that the defendants could generally assert privilege because the communications with the in-

Avoiding Liability



By Jeffrey P. Lewis

Jeffrey P. Lewis is a member in the Philadelphia office of the law firm of Eckert Seamans Cherin & Mellott LLC. He serves on the PBA Professional Liability Committee.

house counsel committee were regarding the lawyers' interest separate from that of their client. But because this created a conflict of interest, the court recognized a "fiduciary exception" to this privilege, that is, when assertion of that privilege would be in conflict with the lawyer's duty of candor, disclosure and loyalty to the client, it cannot be asserted. Accordingly, it ordered production of all such documents. Defendants then brought the matter before the Supreme Court of Oregon.

The attorney-client privilege in Oregon is defined by a statute. Accordingly, the Oregon Supreme Court consulted that statute instead of relying upon the Rules of Professional Conduct. The court concluded that an attorney-client relationship existed between the lawyers seeking advice and the in-house counsel committee and that the communications were confidential. The court also found that Oregon law applied, notwithstanding that all communications in question occurred in the state of Washington, because Oregon law applies to questions of privilege in Oregon courts. Because Oregon's privilege statute includes no fiduciary-duty exception, the court refused to create a "judge-made" exception. Accordingly, the trial court was reversed and the communications deemed subject to the attorney-client privilege were found not discoverable.

The reasoning in *Crimson Trace* does not directly apply under Pennsylvania law. Although Pennsylvania has two statutes that address this privilege, they only address one component: lawyers testifying to privileged communications in court. Therefore, courts in Pennsylvania do not have a statute similar to Oregon's defining the scope and contours of the privilege. But the case does illustrate the caution that must be taken with respect to the use of in-house counsel for legal advice where a conflict of interest is involved.