

REQUIRED READING

3.1B – Representation of Multiple Clients,
Sedona Working Group 12 Ethics and Trade
Secrets Drafting Team (Draft Commentary,
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Ethical Issues in Trade Secret Cases

Brainstorming Group Outline v7

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Principles “At a Glance”

[Proposed] Principle No. 1 – When representing multiple clients in trade secret matters, assessment of conflicts should be checked at the start of and each new stage of the representation.2

[Proposed] Principle No. 2 – Counsel in a trade secrets dispute should not assert a claim or defense that counsel knows or reasonably should know would lack any reasonable factual or legal basis upon a trial or hearing of a fully developed record.**Error! Bookmark not defined.**

[Proposed] Principle No. 3 – Counsel in a trade secrets dispute should not demand in settlement negotiations covenants in restraint of trade that counsel knows or reasonably should know materially exceed in scope the restraints on competition that a court might lawfully have awarded upon a trial or hearing of a fully developed record.**Error! Bookmark not defined.**

[Proposed] Principle No. 4 – Absent a “return of property” or “return of information” provision in an applicable agreement, by counseling a client or participating in a decision by a client not to return trade secret information to its owner, counsel is not unlawfully obstructing the owner’s access to evidence in violation of ABA Model Rule 3.4.**Error! Bookmark not defined.**

[Proposed] Principle No. 5 – When counsel represents an organization, but not the individual or individuals who may have kept or taken trade secret information from a former employer, counsel may request the employee to refrain from voluntarily informing the former employer that trade secrets may have been kept or taken if counsel reasonably believes that the employee’s interests will not be adversely affected by refraining from giving such information.**Error! Bookmark not defined.**

[Proposed] Principle No. 6 – Counsel should not counsel a client to engage in conduct involving trade secret information that the lawyer knows is criminal or fraudulent.**Error! Bookmark not defined.**

[Proposed] Principle No. 7 – Counsel should not knowingly make false statements of material fact or law to a third person regarding the client’s possession of trade secret information or fail to disclose a material fact when it is necessary to avoid assisting the client’s criminal or fraudulent conduct, if it can be done without violating the client’s right to confidentiality. **Error! Bookmark not defined.**

[Proposed] Principle No. 8 – While litigants in a trade secrets matter cannot threaten criminal prosecution to gain an advantage in the civil matter, parallel criminal cases for trade secret violations trigger special considerations.**Error! Bookmark not defined.**

I. Introduction

Trade secret disputes can create professional risks for both the plaintiff and defendant, as well as their counsel, as the ongoing need to evaluate the dispute while facts are developed can uncover potential ethical issues. This can be especially challenging given how quickly trade secrets cases typically move and the intense pressure from both clients and adversaries. It is important for lawyers to ensure that these ethical issues are not lost in the triage and do not end up as afterthoughts.

The continual advances in technology that are not only increasing the potential sources of trade secrets, but also the complexity of the workplace environments and the potential sources of stored information, indicates there is a vigilant need to stay abreast of developments in such areas to avoid ethical lapses and/or the imposition of potentially drastic sanctions.

This paper will explore a number of these ethical issues trade secret counsel may encounter with the intent of providing recommended approaches to handling such issues before and as they arise. Set out below are a series of four primary topics under which a number of ethical issues may arise and as for each a set of key issues to consider. In the course of considering these key issues, the working group intends to develop a set of principles for addressing these key issues. This is a living document and will evolve as the discussions among the brainstorming group members proceed.

II. [Issue No. 1] Representation of Multiple Clients

- Key issue: Counsel must continue to consider and monitor development of potential conflicts as a representation develops over time. The attorney owes each of the clients an equal degree of loyalty and cannot favor the interests of one over the other. *See e.g., Nelson Bros. Profl Real Estate, LLC v. Freeborn & Peters, LLP*, 773 F.3d 853 (7th Cir. 2014); compare *Felix v. Balkin*, 49 F. Supp. 2d 260 (S.D.N.Y. 1999) with *Frontline Communications Intern. v. Sprint Communications*, 232 F.Supp.2d 281 (S.D.N.Y. 2002).
- Key issue: In context of litigation, as discovery proceeds and one client appears to have kept allegedly misappropriated trade secret information or destroyed evidence, the rest of the clients may become interested in pointing the finger at that client. If the individuals stick together or appear were acting in coordination, the company defendant may wish to distance itself. The discovery of the involvement of other people may also shift the interests of individual clients. This might require withdrawal from representation. *See e.g., Model Rules 1.16(a)(1) and Rule 1.7. Consider In re Corn Derivatives Antitrust Litig.*, 748 F.2d 157 (3d Cir. 1984); *Grant Heilman Photography, Inc. v. McGraw-Hill Global*, 2018 WL 2065060 (E.D. Pa. May 2, 2018); *see also Carroll v. Superior Court*, 124 Cal. Rptr. 2d 891 (Cal. Ct. App. 2002); *In re T.C.*, 191 Cal.App.4th 1387 (2010).
- Key issue: A related issue is the ethical triggers inherent to common interest/joint defense arrangements within trade secret cases involving the representation of multiple clients whose alignments may change over time. Standard terms in such agreement relating to the sharing of information, payment of fees and indemnification provisions may create conflicts as the representations develop.

[Proposed] Principle No. 1 – When representing multiple clients in trade secret matters, assessment of conflicts should be checked at the start of and at each new stage of the representation.

Introduction

Conflicts of interest are a part of every lawyer's world. No matter the type of practice, the size of the firm or your tenure there, conflicts of interest impact every lawyer's practice in some way. On a regular basis, all lawyers face decisions about assessing and resolving conflicts. Knowing how to spot conflicts and understanding what to do when they occur is essential.

Dealing with the Rules of Professional Conduct relating to client conflicts can be intimidating. To simplify the assessment, start by considering the policies behind conflicts. First, remember the obvious-- lawyers are fiduciaries of their clients. Accordingly, lawyers have to avoid conduct harmful to their clients and represent them with undivided fidelity.

Second, remember your obligation to preserve client confidence and represent with undivided loyalty. If a lawyers' ability to preserve a client's confidences is restricted by

obligations to another client, third-person or the lawyer, a conflict exists. If a lawyers' ability to put their clients' interests first is diminished by obligations to self, third-parties or other clients, there is a conflict. Finally, if a lawyers' ability to render impartial advice is hindered by another relationship, with self, third-party or client, a conflict issue arises.

No lawyer or law firm wants the negative press or reputational damage that can occur from a mistaken evaluation of a conflict issue. Typically, conflicts are first presented in motions to disqualify where the concern is not only about disqualification but also sanctions or fee regurgitation. In ruling on motions to disqualify, courts will consider the impact on the process caused by the conflict and also the clients' right to choice of counsel. In some cases, availability of counsel is also examined. Obviously, conflicts can also result in disciplinary actions but as a general rule, disciplinary proceedings occur in situations where disqualification has previously occurred.

In the discussion that follows of current client multiple representation issues in trade secret cases, consider the specific application of these policies at various stages of the litigation and evaluate how lawyers can effectively resolve these issues and avoid possible missteps.

More specifically, Model Rule 1.7 serves to remind the trade secret lawyer that their duties of loyalty and of exercising independent judgment are essential as to each of their clients. In attempting to satisfy these duties, it is possible for concurrent conflicts of interest to arise from a number of varying circumstances, perhaps from the lawyer's responsibilities to another client, or a former client, to a third person or even from the self-interest of the lawyer. When such a conflict of interest arises, the lawyer should attempt to clearly identify the client or clients to determine if the conflict is genuine and then decide, depending on when the issues surfaces, whether the representation can be undertaken or continue, despite the conflict, by obtaining the written consent of the clients. Because the timing of when a conflict arises might impact how best to address the issue, the checklist that follows is set out in relation to the typical stages a trade secret lawyer might find themselves. For the trade secret lawyer, as with many intellectual property lawyers, it is important to remember that the protection afforded one party constrains the information available to its competitors. Thus the possibility that simultaneous or a later representation of a competitor of another client in an intellectual property matter can give rise to adversity is due, at least in part, to the fundamental nature of intellectual property protection.

Indeed, assessing what the lawyer should do in these instances, most often requires balancing the lawyer's obligation of confidentiality under Model Rule 1.6 to one client with her disclosure obligation under Model Rule 1.4(b) to another client. Unless there is an exception to the confidentiality obligation, the lawyer is restricted from revealing harmful information. Take for example, the case of *United States v. Holmes* ("Theranos") which highlights the troubles of Elizabeth Holmes, the former founder and CEO of Theranos. In Theranos, Holmes sought to exclude evidence of her communications with Theranos's former counsel on the grounds that this counsel was also her personal lawyer asserting that her communications with the law firm were protected by the attorney-client privilege. Holmes argued that the law firm began its joint representation of her and Theranos in an earlier intellectual property dispute and that the firm thereafter jointly advised her and the company. But the Court rejected this argument, noting that Holmes had failed to satisfy at least three of the multi-factor test set out in *United States v. Graf*, 610 F.3d 1148 (9th Cir. 2010). As to the second factor, Holmes did not make clear to the law

firm that she was seeking legal advice in her personal capacity and not in her role as a corporate representative of the company. Somewhat remarkably it seems that despite firm's significant and continual involvement, there was no engagement letter executed nor any other document setting out the scope of representation. Holmes also failed to satisfy the fourth and fifth factors of the *Graf* test because she did not show that her communications with the firm were confidential and did not show the communications were concerning anything other than the general affairs of the company. As such, the Court determined that only the corporation held the privilege with the law firm and as the company had waived its privilege the materials were not excluded. A better understanding and engagement letter upfront would have addressed a lot of these issues, but given the extended relationship it is also possible to consider the issue could have been memorialized at other times as well.

Another issue to consider is the distinction between privilege and confidentiality as discussed in *Brennan's, Inc. v. Brennan's Restaurants, Inc.*, 590 F.2d 168 (5th Cir. 1979) ("Brennan"). The attorney-client privilege deals with the issue of when a client's communication with a lawyer is subject to discovery in litigation or use at trial. But if there is no litigation or other proceeding, that aspect of the privilege is not triggered. Nonetheless, the duty of confidentiality remains. As such, if litigation were to arise between joint clients, the privilege will not apply as to information shared between the clients and their lawyer, but the privilege will continue to protect that information as to the outside world.

The *Theranos* and *Brennan* decisions suggest the importance of advance waivers for the trade secret lawyer. Model Rule 1.7 addresses this topic and the comments there reflect that "[w]hether a lawyer may properly request a client to waive conflicts that might arise in the future is subject to the test of paragraph (b) [of Model Rule 1.7]. The effectiveness of such waivers is generally determined by the extent to which the client reasonably understands the material risks that the waiver entails. The more comprehensive the explanation of the types of future representations that might arise and the actual and reasonably foreseeable adverse consequences of those representations, the greater the likelihood that the client will have the requisite understanding. Thus, if the client agrees to consent to a particular type of conflict with which the client is already familiar, then the consent ordinarily will be effective with regard to that type of conflict. If the consent is general and open-ended, then the consent ordinarily will be ineffective, because it is not reasonably likely that the client will have understood the material risks involved. On the other hand, if the client is an experienced user of the legal services involved and is reasonably informed regarding the risk that a conflict may arise, such consent is more likely to be effective, particularly if, e.g., the client is independently represented by other counsel in giving consent and the consent is limited to future conflicts unrelated to the subject of the representation. In any case, advance consent cannot be effective if the circumstances that materialize in the future are such as would make the conflict nonconsentable under paragraph (b)."

As the foregoing suggests, the timing of when a conflict arises can impact how best to address the issue and the checklist that follows is thus set out in relation to the typical stages a trade secret representation.

A. INITIAL RETENTION

Informed consent of each of the multiple clients requires that each is aware of the relevant circumstances and of the material and reasonably foreseeable ways that the conflict could have adverse effects on the interests of that client. See ABA Rule 1.0(e) (informed consent).

Representation of multiple clients in a single matter requires that the information to share with clients for informed consent must include the implications of the common representation, the effects on loyalty, confidentiality and the attorney-client privilege and the advantages and risks involved. A detailed joint representation letter outlining these considerations as well as the potential impact of a change in circumstances is necessary and recommended. But it is not necessarily sufficient in all situations. Issues to consider at the time of initial retention:

- Is there a significant risk that a lawyer's ability to consider, recommend or carry out an appropriate course of action for the client will be materially limited as a result of the lawyer's other responsibilities or interests? If so, then there is a conflict.
- Is there a course of action for one client that forecloses alternatives for another that would otherwise be available to that client? If so, then there is a conflict.
- Is there active, contentious litigation or negotiations between clients? Is such action imminent or contemplated? If there is active litigation between clients, then representing both must be declined.
- Is the lawyer able to maintain impartiality between the clients? If not, then representing them all would be improper.

B. FACTUAL INVESTIGATION

In the course of developing an understanding of the representation a lawyer may uncover factual information from or about a client that is disadvantageous or favorable to one client and detrimental to another. In such instance the lawyer may not continue representing either client without harming the other. See, e.g., Model Rule 1.16(a)(1) (requiring withdrawal if "the representation will result in violation of the rules of professional conduct or other law")

For example, the duty to preserve evidence should be assessed for each client. It could be that one client's duty to preserve arose before another. If that client did not satisfy its duty and that failure is detrimental to the other client, the lawyer should withdraw absent informed consent from the hindered client. Issues to consider at the time of conducting factual investigations:

- Have the clients reasonably and timely preserved evidence related to the dispute? If not, then a conflict between the clients may exist.
- Does one client have harmful evidence against another client that would be discoverable to an opposing party?

- Do the witnesses for each client know who you represent? Through interviews of employees, agents, even executives of the actual clients, those witnesses may share evidence detrimental to themselves thinking you are their lawyer. Make sure you give an appropriate Upjohn warning. *Upjohn Co., et al. v. United States, et. al.*, 449 U.S. 383 (1981). Upjohn warnings are intended to make sure that the individual giving information and being questioned understands that the attorney represents only the company and not the witness and that the company not the witness solely controls the attorney-client privilege relating to the interview. If the warnings are not sufficient, the individual will keep control of the privilege and may restrict the company from sharing information.

C. PLEADINGS

Does one client have information requiring an admission of an allegation that is harmful to another client? If so, there may be a conflict.

In prosecuting a complaint, consider fully whether the allegations are supported by the facts and that none of your clients have information contradicting those allegations. Filing a trade secret action in which a plaintiff was later shown to possess evidence that contradicted factual allegations when filed and asserted a theory of recovery that was not valid is potentially sanctionable conduct. *See e.g. Homecare CRM, LLC v. Adam Group, Inc. of Middle Tenn.*, 952 F. Supp. 2d 1373 (N.D. Ga. 2013).

D. DISCOVERY

If written discovery reveals an error in a prior pleading as to one client, can it be corrected without harming the other clients? ABA Model Rule 3.3 prohibits attorneys from making false statements to a tribunal or failing to correct a statement once known to be false. See also, Model Rule 8.4 (prohibiting attorneys from engaging in conduct involving dishonesty). Issues to consider during the course of Discovery:

- Reaffirm *Upjohn* warnings as appropriate before depositions of witnesses. If testimony of a witness at a deposition yields information that a client should have produced but did not, can this be cured without harming the other clients?
- If one client has kept, without authorization, allegedly trade secret information or destroyed evidence, the rest of the clients may become interested in blaming that client. If individual clients reveal they were always acting in concert, the company defendant may wish to distance itself from these individuals. In both cases, a conflict is present.

E. MOTION PRACTICE

- When preparing motions, take the time to double-check your factual investigation against discovery revelations to ensure nothing was improperly withheld at the outset.
- If discovery has revealed a basis for dispositive motion for one client but not another, be sure asserting it does not adversely impact the other. If it does, a conflict exists.

F. PRETRIAL

- Reaffirm your witnesses know who you represent. Confirm your *Upjohn* warnings.
- Are any of your motions *in limine* prejudicial to any of the jointly-represented clients? If so, they may need to hire separate counsel.

G. TRIAL

- Check for unexpected admissions or testimony that helps or harms one client to the detriment of the other.
- Are any of your arguments on appeal prejudicial to any of the jointly-represented clients? If so, they may need to hire separate appellate counsel.