Inside 1Q2019

ACC Association of Corporate Counsel
BALTIMORE
FOCUS

President's Message

Prabir Chakrabarty

Thank you to my fellow ACC-Baltimore Chapter members! I am honored to assume the position of President of the Baltimore Chapter. I would like to take this opportunity to thank my predecessor, Karen Davidson, for the wonderful job she did as President and her help during my tenure as Treasurer. I would also like to thank our Chapter Administrator, and former President, Lynne Durbin, for her tireless effort and insight. We are very lucky to have her in this position.

I look forward to working with our Board as we plan another year of chapter activities. We look forward to your attendance at our luncheons, our iconic annual golf/spa event, our Socials with our Premier sponsors, charitable projects, our sponsor social, and continued outreach through diversity and inclusion events. I also want to take this opportunity to state that we are planning to have some new and exciting events this year, so please stay tuned!

A big thank you to our 2019 sponsors, including those who have recently joined or elevated their sponsorship level:

Premier—Womble Bond Dickinson, Miles & Stockbridge, and Nelson Mullins.

Gold—Shawe Rosenthal, DLA Piper, Anderson Kill, Gordon Feinblatt, Jackson Lewis, Cole Schotz and Saul Ewing.

Silver—CSC, Kramon and Graham and Goodell Devries.

In the interest of serving our membership and sponsors' needs, please be on the lookout for a short survey in the near future. Hopefully the feedback we get from the survey will help us cater our services so that we can be even more successful going forward. This year we will again be planning a Board retreat to ensure we continue to deliver the very best for our in-house members. Further, if there is a topic you would like to hear more on during one of the lunches or have any feedback on our Chapter, please feel free to reach out to myself, any of our Board members listed below, or our Chapter Administrator, Lynne Durbin.

I, along with other fellow board members, was lucky enough to attend the ACC Annual Meeting in Austin, Texas last October. It was a truly humbling experience to see that many in-house counsel from all over the world in one place (I personally met members from as far afield as Hong Kong and South Africa). For anyone who has not been to one previously, or if you have, I would strongly urge you to attend next year's conference in sunny Phoenix, Arizona!

Last but not least, I would like to let our general membership know that we currently have openings for new Board members, so please let us know if you are interested in serving with a fun and engaging group!

I look forward to a great 2019!

Best Regards,
President
Prabir Chakrabarty

If you ever want to share any ideas or comments with the board, here is the current list of officers and directors:

Prabir Chakrabarty —President

Board Members:

Larry Venturelli—President elect and Treasurer
Dan Smith— Secretary
Cory Blumberg
Whitney Boles
Taren Butcher
Dee Drummond
Joseph Howard
Raissa Kirk
Kimberly Neal
Noreen O'Neil
Matthew Wingerter
Karen Davidson —Past President

Top 5 Legal Tech Trends to Watch in 2019

By K Royal, TrustArc.

Technology rules the world, and the legal world is no exception — from commodified personal data to artificial intelligence (AI) to security. So, what are the hottest legal tech trends we will see in 2019? To answer this question, we must review the growth of technology over the past few years.

I searched for an article written within the past 10 years, and found a 2011 piece from the American Bar Association entitled, "What's Hot and What's Not in the Legal Profession." Privacy was not listed, much less cybersecurity. Yet, these have been driving forces in technology, particularly legal technology, for years now.

As technology has advanced, privacy and related fields (e.g., security, data protection, cybersecurity) have become the fastest growing areas of law. Here's how they have evolved and what we might expect in 2019.

1. Security and fraud prevention

Protecting data, in any form, requires security measures. Additionally, there is an increased focus on cybersecurity. The number of breaches has been steadily increasing, including ransomware, malware, and corporate espionage.

Among the largest security risks in recent years was the alleged infiltration of US companies by Chinese hackers who installed microchips to server motherboards sold to many US companies. Whether the microchips actually did exist or not is not the main point; the crux was how the potentially impacted companies and the various government agencies responded. This incident also highlighted the heavy reliance US technological supply chains have on products from a handful of countries, including China.

With the Internet of Things (IoT) so prevalent, the supply-chain concern may have a huge impact on the security of devices, including infected personal devices connecting to work environments. This is aside from employees stealing data, such as the 50 terabytes found in the home of former US National Security Agency employee, Harold Martin.

This level of technological manipulation has made fraud easier to commit. Companies are taking steps to prevent and identify fraud, especially with artificial intelligence (AI) capabilities, yet fraud will continue to grow.

Many companies worry that the General Data Protection Regulation (GDPR) will impact their fraud prevention efforts due to its granting the individuals' control over their personal data, such as access, rectification, and erasure. Preventing fraud is likely a valid reason to deny such rights, but companies must consider its programs, the information obtained and retained, and prepare defenses for its activities.

Many regulations now require protection for personal data, but often do not specify the security controls. The ones that do, such as the US Health Insurance Portability and Accountability Act of 1996 (along with its subsequent amendments, HIPAA), may be outdated (but there is a current Request for Information issued by the US Department of Health and Human Services addressing areas for HIPAA to be updated).

Instead, the standard generally requires reasonable security relative to the size of the company, its resources, the level and amount of sensitivity of the personal data, and the industry norms. This is a target in motion that will ebb and flow with the issuance of regulatory guidance, court decisions, publicized breaches, and technology growth.

Technological advances breed opportunities, for both good and bad actors.

2. Data governance

Often, people confuse data governance with data protection. Data governance is a much larger field, although a good data protection program includes good data governance and vice versa. Data governance is a programmatic concept that focuses on personal data from its inception to destruction — cradle to grave. Therefore, it comprises availability, usability, integrity, consistency, accountability (auditability), and security.

In many cases, companies developed data governance programs in specific data environments or for specific regulations, such as HIPAA, the US Sarbanes-Oxley Act, or various physician payment reporting requirements. Data governance is particularly challenging in an environment that has historically relied on paper documents, but a solid data governance program will help reduce document proliferation, both physically and electronically.

However, given the importance and vulnerability of corporate confidential data (the "crown jewels") along with far-reaching personal data laws, like the GDPR and the California Consumer Privacy Act, companies should adopt a full-scale data governance program. We are seeing this happen specifically with the GDPR, where companies are creating data inventories and records of data processing activity.

continued on page 3

continued from page 2

Data inventory, though tedious, is a fundamental element of data governance. How can companies protect what they don't know they have? Once there is a data inventory, companies should launch programs, such as data protection impact assessments, privacy impact assessments, vendor classifications and oversight, and retention and destruction policies and schedules.

Companies should invest in technology for these purposes, such as dynamic, user-friendly data inventory systems like the TrustArc Data Flow Manager, which links to DPIAs and vendor assessment tools. Other technology options include Truyo, which offers robust solutions for automating data subject access requests and Exego, which provides intelligent, automated analysis of unstructured data. A manual program in spreadsheets and paper only works for small companies with minimal data and vendors.

Certainly, a data governance program should come with someone to lead it. Whether the company needs a privacy officer, security officer, data governance officer, or information security officer, a data protection officer (DPO) is a determination the company needs to make.

Likely, it is a combination of roles that is required. The individuals chosen as DPOs must keep both privacy and security in mind. Multiple individuals may have the expertise, in whole or in part, to become or to assist the DPOs. Remember that the DPO is a role required under GDPR if a company meets certain thresholds.

If a company appoints a DPO voluntarily, even without meeting the thresholds, then the DPO and the company are held to the same standards as if a DPO were required. So be careful what title is used. But more importantly, be clear on the scope and responsibilities of the position.

Regardless of the role, the position must carry both authority and accountability within the data governance program. Accountability without authority to make decisions, maintain a budget, and execute the duties of the position makes it a position in name only — an empty suit — and is useless in building an effective data governance program.

3. Automation

Technology is both the goal and the tool to achieve it. Automation currently plays a key role in machine learning (or AI), marketing statistics, fraud detection and prevention, targeted behavioral ads, and much more. We will see this trend continue to grow.

We have seen automation in place to handle risk assessments for personal data, risk-based business acceptance, consumer and client self-service portals, contract lifecycles, and work process templates. By using automation, companies can easily scale up their efficiencies, serve more clients (internally and externally), and create outputs and metrics to determine the best use of resources.

AI can help manage large volumes of information quickly and be programmed to deliver necessary information, such as contracts. For example, with some software, such as the Exego platform mentioned above, you can check breach notification timeframes or limitations of liability clauses across 3,000 contracts within seconds.

Templates are one of the easiest ways to enter the automation workstream for in-house counsel. Most of us have standard agreements already, but what about automating flexible agreements that can easily suggest or adjust approved clauses, complete terminology changes, and attach the right geographical or product requirements to all necessary documents?

The software would also help the legal team to identify what clauses are consistently problematic across the client base. Once in place, those pesky conditional requirements could be automatically triggered to ensure vendor A got its audit report submitted or vendor B moved to a lower cost for a higher-quantity purchase.

Another area for automation focuses on individual rights to data. Automation can be used to handle intake requests, show the requestor what is available, and process requests according to a set of parameters. One could carry this further and have product teams input certain information, such as personal data elements (e.g., name, location, tax identification numbers) and geographies, and then generate a privacy notice.

An interesting aspect of automation is legal project management. This software is starting to be used more commonly in law firms, but there is no reason that it would not also help streamline the workday of in-house counsel. This particularly helps if counsel have project-type work with multiple actions by counsel to complete, such as implementing policies across multiple jurisdictions, mergers and acquisitions, and product development lifecycles. Given the increasing amount of work we are seeing in-house, tools to assist in organizing our workstreams could be useful.

The last example in this segment is online or phone helper bots. Your company may consider using these tools, and in-house counsel need to understand the technology (see the "Tech and data fluency" section below) for the benefit of the external clients, to prepare notices, and to comprehend any potential liability. But perhaps these technologies could also benefit in-house counsel in their duties.

4. Mobility

Mobile workforces and devices are certainly not new, but we are seeing the concept of mobility increase and impact even more areas of our professional and personal lives. Cloud services are ubiquitous, and the growing expectation is that one truly can work anywhere at any time with access to shared drives and real-time collaboration online available on any computing device.

Phones can now store up to a terabyte of data. In context, a terabyte is roughly the equivalent to 40 Blu-ray movies. This poses an increased security risk that in-house counsel can't ignore.

We see the complexity of the risk encompassing a company's mobile device management, data loss prevention, remote access, outsourced cloud services, audit trails, disaster recovery, back-up, data retention, and data and device destruction.

But let's take the hypothetical further by adding driverless cars, smart homes, and trackers (like mobile employee badges for easy access to satellite offices, hotel entry keys, and keyless cars). Will mobile devices

continued on page 4

continued from page 3

sync with one's environment to facilitate a merger of work and life? Imagine leaving work with some tasks to do, perhaps a contract negotiation.

Enter your driverless car, where you take a call and the contract displays on an inside wall, muting traffic noises, and reflecting changes captured orally, noting who suggested what and who agreed. Dinner choices pop up on a side screen, so you can choose your meal to be delivered 30 minutes after arriving home, given current traffic conditions.

Once home, the dog's kennel unlocks, your call switches to the house phone, automatically muting on your side to give you time to get settled. The contract shifts to the screen of each room you walk into for seamless viewing. Your evening beverage dispenses, while the home temperature changes to "at home" settings. Meanwhile, your significant other is alerted that you have arrived home, dinner has been ordered, and you are scheduled to be on a call for another 20 minutes.

We enter a mobility ecosystem with a new infrastructure, perhaps built on existing technology and incrementally moving us from one state to another. Alternatively, the new infrastructure may change drastically, thanks to technologies that disrupt our industries, as the mobile phone has done. We may not see the full-scale mobile ecosystem arrive in 2019, but the scenario above is imagined with, and based on, current, known technology.

5. Tech and data fluency

It's imperative to be fluent with technology and data and our devices must be fluent with each other — except where it should be prohibited. Common prohibitions would be set by the corporate data classification, where the most sensitive data— draft product development, strategic plans, and sensitive personal data — would be restricted to identified devices and not shared. Not being in tune with tech will jeopardize any efforts to protect proprietary code.

No longer can we afford to humor the attorneys who refuse to accommodate technology. Adoption lags if culture doesn't drive innovation. As in-house counsel, we do not drive innovation. Instead, we are typically pushed, pulled, or dragged along while the company innovates and we try to get the proper agreements and notices in place before calamity strikes.

The workplace is now multigenerational, but the differences between generations are the differences between being digital natives and digital immigrants. Our always-on culture spills over into a profession that was always measured by time and methodical practices. Some of us, at any age, adapt well. Others need intensive training. Adapting will soon no longer be enough; we must be fluent.

In a Legaltech News article, Mark Cohen, CEO of LegalMosaic was quoted:

> "Law is now about collaboration of human resources as well as humans and machines. Many still regard tech as a necessary evil rather than a means to the end of providing customer-centric delivery."

Whether serving internal clients or external ones, counsel must be fluent in technology and data practices. Understanding these is as critical as understanding the client's business, product, or service.

Take advantage of available resources (e.g., online communities or peer-sourcing challenges), and use technology to keep your client informed. We have passed the age of periodic updates — we are "always on." We should accommodate in real time.

Author: K Royal is a technology columnist for ACCDocket.com, and director at TrustArc. @heartofprivacy

ACC News

ACC Xchange: The Mid-Year Meeting for Advancing Legal Executives

This reimagined conference (April 28-30, Minneapolis, MN) combines ACC's Mid-Year Meeting and Legal Operations Conference into one powerful event, delivering the trailblazing programs, content, training, and networking you need all in one place, at one time. Register today for cutting-edge mix of advanced-level education at www.acc.com/xchange.

Are you prepared to comply with new state privacy laws?

Rapidly growing data privacy regulations from California to New York make you accountable for all third-party service providers that access, process, or store your company's personal data. Download the case study on Plaza Home Mortgage and the ACC Vendor Risk Service. Visit www.acc.com/VRS for more information.

2019 ACC Europe Conference: Early Rates End 22 March

Join your in-house colleagues from across Europe in Edinburgh 12-14 May for the ACC Europe Annual Conference. This year's theme is *Being a Change Agent in Disruptive Times* and will have three dynamic programme tracks that will give you the opportunity to broaden the skills necessary to succeed in today's legal environment. Early bird rates end 22 March. Register today at www.acceurope2019.com

2019 ACC Annual Meeting: Registration Now Open

Exceptional in-house lawyers make attending the ACC Annual Meeting a priority. Mark your calendars for October 27-30 in Phoenix, AZ for the 2019 world's largest event on in-house counsel. Learn more.

Global General Counsel Summit: London Calling

Are you driving the discussion on corporate sustainability? Positive financial performance, regulatory pressure, material risk, and shareholder expectations are some

continued on page 5

continued from page 4

of the reasons why you should be. Join the critical conversation on "Driving Corporate Sustainability—the Expanding Role of the GC" with your fellow CLOs from around the world, May 22-24, in London, UK. RSVP today.

New to In-house? Are you prepared?

The ACC Corporate Counsel University® (June 26-28, Minneapolis, MN), combines practical fundamentals with career building opportunities, which will help you excel in your in-house role. Come to this unrivaled event to gain valuable insights from experienced in-house counsel, earn CLE/CPD credits (including ethics credits) and build relationships and expand your network of peers. Register at ccu.acc.com.

Drive Success with Business Education for In-house Counsel

To become a trusted advisor for business executives, it's imperative for in-house counsel to understand the business operations of your company. Attend business education courses offered by ACC and the Boston University Questrom School of Business to learn critical business disciplines and earn valuable CLE credits:

- Mini MBA for In-house Counsel, April 8-10, May 7-9 (Los Angeles location), June 3-5, September 9-11, and November 4-6
- Finance and Accounting for In-house Counsel, September 23-25
- Project Management for in-house Law Department, November 13-14

Learn more and register at www.acc.com/businessedu.

Take It or Leave It: The Rise of Outsourcing Leave Administration

By Stephanie Baron and Elisabeth Koloup Hall, Miles & Stockbridge

FMLA. ADA. PTO – the acronyms alone are enough to make your head spin, much less the administration of required leave laws. Employers need accurate and consistent execution of leave policies, sometimes across multiple corporate locations nationwide, and it has become ever more difficult for employers to keep up and comply with changing federal, state and local leave regulations. As a result, the number of employers outsourcing leave management and related functions to third-party administrators (TPAs) is rapidly growing as a cost-effective and efficient alternative to internal management of such benefits. While FMLA is the most common type of leave outsourced by employers today, companies are increasingly outsourcing the administration of other forms of leave, including short- and long-term disability leave, ADA leave as an accommodation, employee assistance programs, group health, workers' compensation time, paid sick and parental leave, and military, personal and bereavement leave.

Benefits and Risks of Outsourcing

Effective outsourcing, when planned and implemented in a thoughtful and deliberate way, can help employers manage the various challenges of leave administration more effectively by streamlining the leave process. Outsourcing can also minimize or remove the personal or emotional aspect of direct discussions between employees and management about sensitive health issues. In addition, it increases privacy by helping to shield employers from the details surrounding an employee's leave and reduces the likelihood of access to confidential employee medical records.

Despite these advantages, outsourcing also involves risk. For example, many employers believe that by using a TPA, they can avoid all liability for potential leave violations. Although steps may be taken to mitigate risk, outsourcing leave administration generally does not insulate employers from liability. Employers also essentially relinquish control over the decision-making involved in the leave process to the TPA, making it difficult for an employer to maintain control and oversight of the process. As such, frequent and effective communication between employers and TPAs is crucial to ensuring a smooth administration process and compliance with all legal obligations.

Best Practices for Dealing with TPAs

There are several recommended practices for employers outsourcing all or some of their leave management responsibilities that will facilitate their relationship with the TPA and avoid many of the common hazards associated with third-party leave administration.

- Review your company's leave practices and policies with your TPA and confirm which leaves will be outsourced.
- Clearly delineate and document the roles and responsibilities of each party. Hold regular meetings with your vendor to discuss program feedback and concerns, and if warranted, to allow for changes to be implemented immediately.
- Confirm that your TPA's leave management procedures comply with all applicable laws and regulations by obtaining information from the TPA regarding its process for evaluating leave requests. Remember, even with outsourcing, employers may bear the ultimate responsibility for compliance with workplace laws.
- Ensure that there is a process for obtaining and reviewing documents and materials that are submitted by your employees to your TPA. While the TPA should be handling the day-to-day questions and issues as they arise, if you have an employee claim or question arise, you want to be sure that you are able to quickly communicate with and obtain information from your TPA.

continued on page 6

continued from page 5

- Integrate FMLA, disability and other leave programs with end-to-end absence management. Since failing to offer all available forms of leave in connection with an absence can lead to significant liability, employers should confirm that the TPA is considering all forms of leave available to each employee and that, whenever a request for leave is denied, there are no other forms of leave available.
- Train all managers and appropriate HR staff to recognize and respond appropriately to FMLA and ADA requests and to understand how employees might invoke their rights under FMLA and ADA to ensure they are gathering the right information and taking the right steps. Managers and HR staff should also be trained on the various communications that occur throughout the life of a leave request.
- Consolidate outsourced leave administration to a single vendor. Retaining responsibility for some types of leave and/or leave management tasks internally while outsourcing others increases the likelihood of errors and miscommunications, which undermines the entire purpose of outsourcing to enhance efficiency and reduce liability. Fully outsourcing leave programs and all related management can reduce cost, minimizes information-sharing and lessen the amount of necessary communications between parties.
- Establish and maintain a consistent approach to minimize liability, legal complications and inquiries from the DOL or EEOC. Leave policies should be uniform and applied consistently, whether an employer decides to outsource leave administration or to keep the function in-house.

While TPAs may be a good resource for managing and administering leave, employers should properly manage their TPAs. Before retaining a TPA, employers should weigh the risks and benefits to decide whether a TPA is right for the company's structure, culture, resources and specific needs.

For more topics, please visit the Miles & Stockbridge Labor, Employment, Benefits & Immigration Blog.

Disclaimer: This is for general information and is not intended to be and should not be taken as legal advice for any particular matter. It is not intended to and does not create any attorney-client relationship. The opinions expressed and any legal positions asserted in the article are those of the author and do not necessarily reflect the opinions or positions of Miles & Stockbridge, its other lawyers or ACC Baltimore.

Stephanie Baron is a principal and Elisabeth Koloup Hall is an associate in Miles & Stockbridge's Labor, Employment, Benefits & Immigration Practice. Stephanie and Elisabeth advise and represent businesses in all aspects of labor and employment law.

IP Enforcement and the Ethics of "Test Buying"

By Matthew D. Kohel, Craig S. Brodsky, & Emmit F. Kellar, Goodell DeVries

The anonymity of the internet has made protecting intellectual property increasingly challenging by offering endless possibilities for infringers to sell counterfeit goods. Intellectual property owners have increasingly turned undercover purchases of goods believed to be counterfeit through "test buys" and "covert purchases." Because of their deceptive nature, test buys and covert purchases implicate the Rules of Professional Conduct. This article analyzes the ethical issues associated with test buys for civil litigation. As discussed in detail below, there is a continuum of ethical conduct that litigators must account for when conducting a covert purchase and a disparate interpretation of these rules by courts in different jurisdictions.

Courts carefully scrutinize the tactics used in test buys in civil cases. Douglas R. Richmond, *Deceptive Lawyering*, 74 U. Cin. L. Rev. 577, 605 (2005). There is an expansive toolbox of investigative techniques at a lawyer's disposal, ranging from the harmless request for information to the creation of false personas. Steven C. Bennett, *Ethics of "Pretexting" in a Cyber World*, 41 McGeorge L. Rev. 271, 276 (2010). Four ethical rules are commonly invoked in the context of a test buy. They are American Bar Association (ABA) Model Rules 5.3, 4.2, and 4.3, and 8.4.[1]

ABA Model Rule 5.3– Responsibilities Regarding Nonlawyer Assistance

ABA Model Rule 5.3 concerns the relationship between a lawyer and an investigator, and essentially holds lawyers responsible for unethical conduct by their staff or others under their direction. Rebecca Graves Payne, *Investigative Tactics: They May Be Legal, But Are They Ethical?*, 35 Colo. Law. 43, 44 (Jan. 2006). Model Rule 5.3 should give all attorneys pause when considering a test buy. An obvious benefit of hiring an investigator is that it creates distance between the investigation and the attorney's role. *See* Will Hill Tankersley & Conrad Anderson IV, *Fishing With Dynamite*, 69 Ala. Law. 182, 191–92 (May 2008). Without hiring an investigator, attorneys likely face logistical difficulties, such as having to testify as a witness to authenticate evidence that they secured for their case. Marguerita B. Dolatly, *Creating*

continued on page 7

continued from page 6

Evidence: Ethical Concerns, Evidentiary Problems, and Application of Work Product Protection to Audio Recordings of Nonparty Witnesses Secretly Made by Attorneys or Their Agents, 22 Rutgers Computer & Tech. L. J. 521, 545 (1996). This can lead to further complications with the ethical rules, such as whether an attorney can serve as a witness while still fulfilling his or her duties to a client. *Id*.

Put simply, attorneys using an investigator to conduct a test buy should proceed cautiously, given that they are ethically responsible for their actions. It is therefore recommended that an attorney hire an investigator who understands the boundaries of a lawyer's ethical obligations or is knowledgeable about the subject matter of the investigation. *See* Payne, *supra*, at 49–50. This may require hiring former law enforcement officers, or in certain cases, other attorneys to make covert purchases. *Id*. One best practice is specifying in writing the criteria for a purchase so that an investigator and any reviewing court are aware of which investigative tactics an attorney requested. See Phillip Barengolts, *The Ethics of Deception: Pretext in Investigations in Trademark Cases*, 6 Akron Intell. Prop. J. 1, 16 (2012).

ABA Model Rules 4.2 and 4.3–Communications with Represented and Unrepresented Third Parties

ABA Model Rule 4.2 prohibits an attorney from "communicat[ing] about the subject of the representation with a person the lawyer knows to be represented by another lawyer in the matter." ABA Model Rules of Prof'l Conduct R. 4.2. In terms of dealing with unrepresented individuals, Model Rule 4.3 places an affirmative duty on an attorney to "make reasonable efforts to correct" an unrepresented person's misunderstanding of a lawyer's role in a matter. ABA Model Rules of Prof'l Conduct R. 4.3.

Three considerations come to mind with Model Rules 4.2 and 4.3 in the context of a test buy. First, although Model Rule 5.3 applies agency principles to the attorney–investigator relationship, there is no clear guidance on whether using an investigator impacts an attorney's duty under the Model Rules. *See* John K. Villa, *The Ethics of Using Undercover Investigators*, 28 No. 9 ACC Docket 86, 89 (2010). Second, an attorney must understand who a covert purchase would require an investigator to make contact with and whether those individuals are represented. This becomes a gray area when an investigator is dealing with low-level employees of a large corporate defendant. *Id*. Third, an attorney should take into account whether a covert purchase is occurring before or after litigation has commenced, because courts apply a stricter level of scrutiny after a case has been filed. *See* Payne, *supra*, at 49.

ABA Model Rule 8.4–Attorney Misconduct

Among other concerns, ABA Model Rule 8.4 addresses an attorney's inherent duty to act honestly. The rule states that "[i]t is professional misconduct for a lawyer to . . . engage in conduct involving dishonesty, fraud, deceit, or misrepresentation." ABA Model Rules of Prof'l Conduct R. 8.4(c). In the well-known disciplinary opinion *In re Conduct of Gatti,* the Supreme Court of Oregon sanctioned an attorney who posed as a chiropractor to gather information from other doctors about an insurance case with which he was involved. 330 Or. 517, 521–22 (Or. 2000). In addressing Oregon's version of Model Rule 8.4, the court held that Oregon law "does not permit recognition of an exception for any lawyer to engage in dishonesty, fraud, deceit, misrepresentation, or false statements," including misrepresentation of identity or purpose. *Id*. at 532. This complete prohibition against misrepresentation produced significant backlash from law enforcement due to the chilling effect that it would have on other covert activities. Kathryn M. Fenton, *Ask the Ethics Experts: Ethical Implications of Lawyer Participation in Undercover Investigations and Other Covert Activities*, 16 Antitrust 79 (2002). In response to *In re Conduct of Gatti*, jurisdictions began creatively carving out exceptions to Model Rule 8.4 in their local rules to allow lawyers to engage in deceptive practices when it was necessary to prevent wrongdoing. *Id*.

Adaptive Changes in Response to the Ethical Rules

Given the implication of multiple ethical rules, and the effect of opinions such as *In re Conduct of Gatti*, jurisdictions have adopted modified ethical rules to reflect different views on covert activities. Nearly every jurisdiction has adopted a form of ABA Model Rule 8.4, but not all of them agree on its limits or enforceability. Oregon modified its version of ABA Model Rule 8.4 in response to the effects of *In re Conduct of Gatti*. The Oregon Rules of Professional Conduct Rule 8.4 still outlaws dishonest behavior by lawyers, except actions taken to "supervise lawful covert activity in the investigation of violations of civil or criminal law." Or. R. Prof'l Conduct 8.4(b). ABA Model Rule 8.4's language led some jurisdictions to limit deceptive behavior in civil litigation. For example, the Supreme Court of Colorado has imposed a complete ban on any sort of civil pretextual activity, regardless of whether a "noble motive" is involved. *In re Paulter*, 47 P.3d 1175, 1180 (Colo. 2002). Several other states, such as Florida, explicitly permit governmental lawyers to conduct undercover investigations, but they provide scant guidance when it comes to private attorneys using similar tactics. *See* Mary Nix & James R. Ray, *Dissemblance in the Franchise Industry: The Art (and Ethics) of Deception*, 33 SPG Franchise L.J. 525, 530 (2014) (citing Fla. R. of Prof'l Conduct 4-8.4(c)).

Alternatively, some jurisdictions have amended their ethical rules to accommodate particular pretextual behavior. For example, the Alabama State Bar Disciplinary Commission has issued a formal opinion through the Alabama State Bar Office of General Counsel that creatively interprets the ABA Model Rules to find that pre-suit investigational

continued on page 8

[1]In Maryland, these rules are codified as Maryland Rules 19-305.3, 19-304.2, 19-304.3 and 19-308.4.

continued from page 7

test buys are specifically permitted. *See* Tankersley & Anderson, *supra*, at 187–88 (citing Ala. Formal OCG Op. 2007-05 (2007) (pretext calling)).

While the ABA has formally addressed several pretextual activities, covert purchases are not among them. As a result, jurisdictions are left with three options: (1) accept ABA Model Rule 8.4 on its face and leave the issue to the judiciary, (2) address the issue via commentary to the rule on an ad hoc basis, or (3) draft their own rule on attorney misconduct. *See* Nix & Ray, *supra*, at 529–32. This has created a scattered ethical stance on test buys that remains today.

Current Trends: Ethics Violation or Evidentiary Sanctions

Despite the differences among jurisdictions, there is a trend that courts that "handle a greater volume of infringement, counterfeiting, and deceptive trade practice cases seem to be more tolerant" of test buys and other prelitigation investigations. *See* Barengolts, *supra*, at 15 (2012). It is also noteworthy that courts have been more willing to consider evidentiary sanctions over disciplinary sanctions when pretextual investigations implicate potential violations of an attorney's ethical obligations. *Compare, Midwest Motor Sports v. Arctic Cat Sales, Inc.*, 347 F.3d. 693 (8th Cir. 2003) (sanctioning Appellant for violating Model Rules 4.2 and 4.8 by excluding the secret recordings made by its investigator) and *Apple Corps Ltd. v. International Collectors Soc.*, 15 F. Supp. 2d. 456, 460 (D. N.J. 1998) (finding no violation of Model Rule 8.4); *see also*, *Gidatex, S.r.L. v. Campaniello Imports, Ltd.*, 82 F. Supp. 2d. 119 (S.D.N.Y. 1999) (analyzing the admissibility of evidence based on the ethics of the test buy).

Because of a lack of uniform treatment of evidence collected covertly and a lack of authorities to guide decision-making, attorneys should reflect carefully on the requirements of the test buy and consider them against the factors present in case law and ethical rules. Key factors include the attorney's good faith belief of a violation of intellectual property rights, availability of evidence, whether the lawyer was personally involved, and whether the test buy was before or after litigation commenced. *See* Barengolts, *supra*, at 16 (2012).

The more difficult question facing counsel is determining whether the deceptive test buy is "too deceptive." Perhaps the most reasonable approach is that of the *Apple Corps* case, which analyzed the "materiality" of the deception. *Apple Corps Ltd.*, 15 F. Supp. 2d. at 475–76. In *Apple Corps*, the Plaintiff suspected that the Defendant was selling stamps containing John Lennon's likeness beyond the scope of a Consent Order. The Court carefully scrutinized the various test buys and declined to sanction the Plaintiff's attorneys for their role in the test buys. Although there are a number of reasons for the Court's decision not to sanction counsel, the primary bases for the Court's conclusion was that the test buyers had limited interaction with the sellers and limited their interactions with the Defendant's employees to whether the stamps could be purchased. The Court thus focused on the materiality or deception involved. The Court then focused on the materiality of the deception. Unfortunately, the court's threshold of "material" conduct was vaguely defined as "grave misconduct . . . of such gravity as to raise questions as to a person's fitness to be a lawyer," *Id.* at 476 (citation omitted). Thus, it can be difficult for counsel to determine a course of conduct when counterfeit products are suspected.

The Rules of Professional Conduct, *Apple Corps*, and the other cases cited above provide guidance for counsel conducting a test buy. Additional guidance comes from ongoing dealings with Bar Counsel in various jurisdictions. Indeed, the current trend in disciplinary actions is for Bar Counsel to focus on the lawyer's honesty and fitness to practice law, not just the facts that may give rise to a disciplinary investigation. As a result, when deception is needed to investigate whether a competitor is impermissibly selling products, counsel would be wise to limit the deception to the investigator's identity and purpose *See* Nix & Ray, *supra*, at 537. Counsel should also closely supervise the investigators chosen and consider drafting a script for the test buyer to use. By keeping close tabs on everyone involved in the investigation, attorneys can comply with the ethical rules and avoid having critical evidence excluded by the courts.

Matthew D. Kohel is a partner at Goodell Devries Leech & Dann LLP in Baltimore. His practice is concentrated in the areas of commercial, intellectual property, and product liability litigation. He represents clients in a wide variety of matters, including for breach of contract, fraud, and breach of fiduciary duty, as well as in disputes for trademark infringement, the sale of counterfeit goods, misappropriation of trade secrets, and patent infringement matters. Mr. Kohel has litigated cases in federal courts across the country and represented clients in domestic and international arbitrations. He regularly handles technical, scientific, and regulatory issues.

Mr. Brodsky, also a partner at Goodell, DeVries, concentrates his practice in complex litigation and professional liability. In addition to his complex litigation practice, Mr. Brodsky also frequently handles disciplinary actions for attorneys and health care providers. Mr. Brodsky has tried jury cases in Maryland, Virginia and the District of Columbia and had the honor of arguing before the highest appellate courts of all three jurisdictions.

Mr. Kellar, an associate with the firm, practices in several areas of law, including commercial and product liability litigation. In the commercial practice area, he has experience litigating a number of different matters, including breach of contract and fraud cases, trademark infringement, construction disputes, and employment law issues.

SBA Disappoints Many Growing Small Businesses By Stating That The New Statutory Five-Year Measurement Period For Small Business Eligibility Is Not Effective Yet

By G. Matthew Koehl, Gary J. Campbell, Womble Bond Dickinson

Late last year, President Trump signed into law H.R. 6330, the Small Business Runway Extension Act of 2018 (the "Runway Extension Act"). As detailed in our client alert on the Runway Extension Act, this law extends the measurement period for determining whether a contractor qualifies as a small business concern under revenue-based size standards from an average of the most recently completed five fiscal years, rather than the long-standing three-year measurement period. It is anticipated that many growing firms, which had or would soon come to exceed the revenue threshold applicable to their principal NAICS code(s), will gain additional years of "small business" status by including (often much lower) revenue totals from 4 and 5 years ago to determine their average annual revenue.

We noted that the Runway Extension Act amends the Small Business Act without expressly requiring implementation by the Small Business Administration (SBA), thereby allowing contractors reasonably to take the position that the Runway Extension Act is immediately effective, absent contrary guidance from the SBA. In a move sure to disappoint the many small but growing services firms that Congress intended to help by passing the Runway Extension Act, SBA has now issued such contrary guidance.

Specifically, on December 21, 2018, SBA published an Information Notice addressed to all SBA Office of Government Contracting and Business Development (GCBD) employees stating that the "Runway Extension Act is not presently effective and is therefore not applicable to present contracts, offers, or bids until implemented through the standard rulemaking process."1 Thus, "[u]ntil SBA changes its regulations, businesses still must report their receipts based on a three-year average." SBA bases its position on the fact that the Runway Extension Act does not expressly include an effective date or make a five-year average effective immediately. SBA's position is in the form of agency-internal guidance and also appears inconsistent with applicable federal court holdings on statutory construction. Notwithstanding, contractors should assume that SBA will seek to enforce the three-year measurement period reflected in current SBA regulations until such time as SBA issues new interim or final regulations implementing the Runway Extension Act.

It could take weeks, months or even longer for SBA to issue regulations implementing the five-year measurement period. Until such regulations issue, contractors may be best served to conform to SBA's stated position on the effective date, however questionable the basis for it may be. To the extent that contractors elect to bid on set-aside solicitations on the assumption that the five-year measurement period is already effective, they would be well-advised to explicitly state this in the applicable proposal or certificate submitted to the contracting agency with their proposal response. While this may increase the possibility of a size protest or other contracting agency inquiry to the SBA, an express statement that the certification is premised upon the Runway Extension Act's five-year measurement period should mitigate against allegations of contractor misrepresentation or fraud relating to their proposal submissions.

[1] https://media.wbd-us.com/30/1487/uploads/sba-gc.pdf

Matt Koehl is a veteran government contracts lawyer with more than 20 years of private law firm and senior in-house law department experience. He represents commercial and defense contractors across a broad range of industries, with a particular emphasis on matters relating to the Federal Supply Schedule (FSS) program.

Gary Campbell has spent his entire career representing government contractors, both in private practice and as in-house counsel to a Fortune 100 aerospace and defense company. He regularly counsels his clients on a broad range of government contracts issues, including transactional matters, such as proposal responses and contract negotiations; ethics and compliance issues; internal investigations and government audits; mergers and acquisitions; protests and business disputes.

Board Leadership

President
Prabir Chakrabarty
Mariner Finance
(443) 573-4909
pchakrabarty@marinerfinance.com

Immediate Past President
Karen Davidson
Lord Baltimore Capital Corp.
410.415.7641
kdavidson@lordbalt.com

President Elect/Treasurer
Larry Venturelli
Zurich North America
410-559-8344
larry.venturelli@zurichna.com

Secretary
Dan Smith
DSmith@videologygroup.onmicrosoft.com

Program Chair
Joseph Howard
Howard Bank
443.573.2664
jhoward@howardbank.com

Board Members
Cory Blumberg
Taren Butcher
Irvin Drummond
Joseph Howard
Raissa Kirk
Kimberly Neal
Noreen O'Neill
Whitney Washington Boles
Matthew Wingerter

Past Presidents Advisory Board
Melisse Ader-Duncan
Frank J. Aquino
Ward Classen
Karen Davidson
Maureen Dry-Wasson
Lynne M. Durbin
Lynne Kane-Van Reenan
Andrew Lapayowker
William E. Maseth, Jr.
Christine Poulon
Dawn M. B. Resh
Mike Sawicki

Chapter Administrator
Lynne Durbin
ldurbin@inlinellc.net