IN THE UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF COLUMBIA

FEDERAL TRADE COMMISSION, Plaintiff,	)	
v.	)	Civ. Act. No. 90-1657-GHR
ATLANTIC RICHFIELD COMPANY, et al., Defendants.	)	

BRIEF AMICUS CURIAE OF THE AMERICAN CORPORATE COUNSEL ASSOCIATION

Carl D. Liggio
Chairman
ACCA Amicus Brief
Committee
277 Park Avenue
New York, New York 10172
(212) 773-2367

Of Counsel: Nancy A. Nord
Executive Director
American Corporate
Counsel Association
Suite 302
1225 Connecticut Avenue, NW
Washington, D.C. 20036

TABLE OF CONTENTS

TABLE OF AUTHORITIES

INTEREST OF AMICUS CURIAE

Amicus Curiae, the American Corporate Counsel Association ("ACCA"), is composed of members of the bar ("employed counsel"),[1] who do not hold themselves out to the public for the practice of law, but who are engaged in the active practice of law solely on behalf of corporations, partnerships, and other organizations in the private sector. ACCA, which was formed in March, 1982, is the only national bar association whose efforts are devoted exclusively to the professional needs of attorneys who are members of the legal staffs of organizations in the private sector. ACCA has approximately 8000 members who are employed as "corporate counsel" by over 3000 organizations.

Not only do attorneys practicing as members of the legal staffs of organizations make up an increasing portion of the bar, but they are doing an ever increasing percentage of the legal work of organizations which employ them. Some corporations have long had all or a large portion of their legal work performed by attorneys on their legal staffs. Many organizations have expanded and are continuing to expand the role of their law departments to include trial work as well.

Thus, the attempt by the Federal Trade Commission to deny access to confidential information because of the status of a lawyer as *employed counsel* is of critical importance to the members of ACCA and the organizations they represent. If the FTC were to succeed in blocking access to information by defendants' employed counsel, it would prohibit counsel from effectively representing their client and deny defendants the counsel of their choice. This decision has a substantial adverse impact on the members of ACCA and the organizations they represent.

---

[1] We use the term *employed counsel* to refer to lawyers who work exclusively for one client and do not hold themselves out to the public for the practice of law. We use the term *retained counsel* to signify those lawyers not on the client's payroll *and* who hold themselves out to the public for the practice of law.

QUESTION PRESENTED

WHETHER A COURT MAY DENY A PARTY'S COUNSEL ACCESS TO CONFIDENTIAL INFORMATION WHICH IS UNDER A PROTECTIVE ORDER SOLELY BECAUSE COUNSEL IS AN EMPLOYEE OF THE PARTY?

STATEMENT OF THE CASE

The facts and surrounding circumstances leading to this motion are fully set forth in the papers of the parties and will not be repeated here. ACCA respectfully refers the Court to the briefs of the parties for a further statement of the relevant facts.

SUMMARY OF ARGUMENT

The FTC's efforts to preclude defendants' employed counsel from having access to information necessary to the defense of this action, which is based on an erroneous premise, creates an arbitrary standard with respect to the ability to select counsel of one's own choosing. Moreover, it bears no rational relationship to the possible abuse it is designed to protect against and it casts unjustified aspersions on employed counsel.

Similarly, the FTC request, if implemented, creates an unwarranted obstacle to the effective and economical provision of legal services to organizations and perpetuates arbitrary and artificial distinctions between employed and retained attorneys which have no factual or rational basis. Finally, the FTC's position places any party, which consciously selects employed counsel as its counsel of record, at a distinct disadvantage, both economically and strategically, in litigation.

Accordingly, ACCA urges the adoption by this Court of the standard set forth in this Memorandum which recognizes the risk to be protected against while still accommodating the legitimate interests of both parties in determining when a court will preclude any counsel from access to confidential information. (*See infra* at 7-11)

ARGUMENT

I. COUNSEL'S STATUS, WHETHER AS AN EMPLOYED OR RETAINED COUNSEL, SHOULD NOT BE THE BASIS FOR DETERMINING ACCESS TO CONFIDENTIAL INFORMATION CRUCIAL TO PROSECUTING AN ACTION.

A. The FTC's Proposed Protective Order Ignores the Changing Nature of the Practice of Law

Attorneys practicing law as members of corporate legal departments constitute the fastest growing segment of the legal profession. It has become increasingly common to find corporations performing all their own legal work, including litigation, exclusively using employed counsel.[2] The growth of the corporate legal department and its increasing visibility in the legal community, particularly in litigation practice, is explained in large part by the fact that corporate managers have come to recognize that high quality legal services can be delivered on a more cost-effective basis by employed attorneys rather than by retained counsel.

In fact, because the employed counsel deals exclusively with the client's problems on a daily basis, the attorney develops an in-depth knowledge of the client and its particular legal problems that is difficult, if not impossible, for the company to replicate when dealing with a law firm on a contract basis. To the extent "outside" or retained counsel can acquire this in-depth knowledge, it is only because they are effectively functioning as inside counsel.[3]

The rationale used by the FTC and other courts, to the extent that they have done so, in denying employed counsel access to confidential information ignores the fact that retained counsel

---

2 A 1989 survey of 470 corporate law departments found in larger law departments 52% to 57% of the litigation is done by employed counsel, while in departments of 1 to 5 attorneys, about 50% of the work is done by employed counsel. Twelfth Annual National Survey of Corporate Law-Department's Compensation and Organization Practices, REPORT OF ERNST & YOUNG TO THE ASSOCIATION OF THE BAR OF THE CITY OF NEW YORK (Sept. 1989).

3 On Tuesday, August 7, 1990, the Hon. Kenneth Ripple, a member of the Seventh Circuit Court of Appeals, in a speech before the American Bar Association on Appellate Advocacy commented that he saw no perceptible difference in the quality of the legal services performed by employed and retained counsel when appearing before the Seventh Circuit save in one instance. He found that employed counsel tended to have a better grasp of substantive and technical issues and matters *sui generis* to their client. He suggested that this resulted from have a more thorough knowledge of the business of the client and was thus better able to present and simplify for the court those issues which related to the business of the client.

often has a close relationship with the client. In some situations, all of a corporation's legal work is performed by only one firm, and often times by only one or two individuals who devote themselves exclusively to that client and may also serve as corporate officers or members of the company's Board while retaining "outside" or employed counsel status. Indeed, ACCA is aware of many instances in which law firm partners serve as corporate general counsel and spend a majority of their time on one client. In fact, our experience is that in situations where retained counsel is the alter ego of or a substitute for employed counsel, retained counsel may in fact be more intimately involved in the business operations of the client than employed counsel.

Moreover, in recent years there has been a blurring of any distinction between retained and employed counsel. Given the high rate of attrition among attorneys in law firms and the increasingly transient nature of today's legal community, it is not at all unusual for employed counsel to join private law firms, for retained counsel to become members of corporate law departments, and (as previously noted) for lawyers to be members of law firms and serve as corporate counsel simultaneously.[4] Thus, the assumed greater intimacy and resultant danger of "inadvertent disclosure" implicit in the FTC's basis for seeking to deny employed counsel access to confidential information is not a rational basis on which to deny them such access. The fact is that the FTC's groundless apprehension, which forms the rationale for denying disclosure, creates a false and arbitrary standard which bears no rational relationship to the protectible interest.

---

[4] One need only read any of the numerous legal newspapers and magazines to find innumerable examples of retained counsel moving to the internal staff of its clients and vice-versa.

B. All Counsel Are Officers Of The Court And Thus Subject To The Same Ethical Obligations

The Code of Professional Responsibility applies with equal force to all attorneys without regard to their employment status.[5] Thus, all attorneys, regardless of whether they are employed or retained by their client, are subject to the same standards of professional conduct and are subject to disciplinary measures for breaches of those rules. That lawyers are governed by a code of professional conduct is well-known and understood by corporate clients.

Given the fact that attorneys in corporate legal departments perform the same work and are held to the same professional and ethical standards as are their counterparts in law firms, it is difficult to advance a logical argument for denying employed counsel access to the confidential information necessary to adequately represent their clients solely on the basis of their employment status, while willingly granting "outside" counsel access to the same information.

To the extent that there is any suggestion that affording access to corporate counsel will increase the "dangers of inadvertent disclosure", there is nothing on this record which would support such a conclusion. The FTC's papers admittedly do not point to any evidence (empirical or otherwise) to suggest this would be the case, but instead apparently rely on an unjustifiable, purely personal perception of the practice of law in a corporate legal department. The FTC's reasoning is difficult to comprehend, unless it is suggesting that employed attorneys, as a class,[6]

---

5 It is axiomatic that there is no distinction between lawyers based on their employment status:

> The type of service performed by a house counsel is substantially like that performed by many members of large urban law firms. The distinction is chiefly that house counsel gives advice to one regular client, the outside counsel to several regular clients.

United States v. United Shoe Machinery Corporation, 89 F. Supp. 357 (D. Mass. 1950). ACCA submits that even this distinction lacks force in today's legal practice, where it is common for some attorneys in large law firms in effect to handle only *one* client's matters.

6 To the extent the FTC's application is predicated on the assumption that employed counsel constitute a class of attorneys distinct from retained counsel, it arguably runs afoul of constitutional constraints, in that state action which results in different treatment of classes of individuals is prohibited by the Fifth Amendment unless there is a rational basis for that disparate treatment. *See U.S. v. Kras*, 409 U.S. 434 (1973). *See also, Fleming v. Nestor*, 363 U.S. 603 (1960). Any prohibition directed solely at employed counsel because of counsel's status as such is discriminatory treatment of employed counsel and lacks any rational basis whatsoever.

cannot be trusted to exercise the same degree of restraint with respect to safeguarding confidential information that is required of all attorneys.

This argument, impugning the professionalism of all corporate attorneys, was soundly rejected by the Court of Appeals for the Federal Circuit in *U.S. Steel Corporation v. United States*, 730 F.2d 1465 (Fed. Cir. 1984). There the court reversed and remanded the district court's refusal to grant employed counsel access to confidential documents critical to prosecution of a case. Rejecting the *per se* rule fashioned by the lower court, the Circuit Court held:

> Like retained counsel . . . in-house [employed] counsel are officers of the court, are bound by the same Code of Professional Responsibility, and are subject to the same sanctions . . . The problem and importance of avoiding inadvertent disclosure is the same for both. Inadvertence, like the thief-in-the-night, is no respecter of its victims.

Id. at 1468.

The FTC's effort to preclude defendants' counsel, solely because of their status as employed counsel, from having access to confidential data is simply an anachronism. The result would not only grant unwarranted "protection" to the practice of retained law firms, but also impugns the professionalism of employed counsel without justification. The relief sought is squarely at odds with the burgeoning practice of corporate legal departments and with the increasingly accepted notion within the business community that the interests of a corporation are best served and protected by the development of a high quality internal legal department.

The FTC's argument also apparently clings to an unfounded notion that somehow employed counsel are fundamentally different from other lawyers and that a distinction in their ability to maintain high professional standards can be drawn based on this perceived difference. This idea is not supported either by the record in this case or by reality; it is clearly erroneous and must be rejected.

II. THE RELIEF SOUGHT WOULD EFFECTIVELY DENY defendant THE RIGHT TO USE COUNSEL OF ITS CHOICE

There is no question that the district courts have the primary responsibility for controlling the ethical activities of the attorneys who practice before it. *Securities Investor Protection Corp. v. Vigman*, 587 F. Supp. 1358, 1362 (C.D. Cal. 1984). This power includes the authority to order

disqualification. *Id.* The right of a party to be represented by its counsel of choice is an equally important tenet of this country's legal system, and one with which the courts have traditionally been very reluctant to interfere.

These competing interests must be balanced, particularly where, as here, the relief sought effectively disqualifies a key part of the defendants' legal team and is based on a purely speculative belief, unsubstantiated by any evidence in the record, that counsel would be unable to resist the temptation to disclose protected, confidential information to their clients.

To require defendants to only use retained counsel representation for the purported "limited purpose" of reviewing confidential documents will deny defendants of one of their counsel of choice for that important task and, indeed, will deprive them of their right to effective representation by counsel of their choice generally.

Denying defendants' employed counsel access to confidential documents which are, without question, critical to the defense of this action will make it virtually impossible for them to participate effectively in the pre-trial and trial proceedings, or to advise defendants on whether to proceed with the action or settle.

III. THE COURT SHOULD FORMULATE AN OBJECTIVE STANDARD TO USE IN DETERMINING WHO SHOULD HAVE ACCESS TO CONFIDENTIAL INFORMATION

Notwithstanding the foregoing, ACCA does recognize that there may be some circumstances where counsel -- whether employed or retained -- would be properly precluded from having access to the protected material. However, such limitations should only be imposed based on an objective standard. In *U.S. Steel v. United States*, 730 F.2d 1465 (Fed. Cir. 1984) the Court of Appeals for the Federal Circuit directed the district court to adopt just such an objective standard for determining counsel's access to confidential information. Toward that end, the Court in *U.S. Steel* noted that

> Whether an unacceptable opportunity for inadvertent disclosure exists . . . must be determined . . . by the facts on a counsel-by-counsel basis, and cannot be determined solely by giving controlling weight to the classification of counsel as in-house rather than retained.

Id. at 1468 (emphasis added)

Accordingly, ACCA proposes that this Court adopt an objective standard which bases access to confidential material on a "need to know" basis without regard to employment status. In determining when access will be granted or denied, we suggest the following criteria should be considered in determining a counsel's access to confidential information:

- Does counsel have a non-legal role with the client? If counsel has a non-legal role, does the confidential information at issue relate to the non-legal role?
- How is information processed and distributed by counsel's office? Are documents received by counsel customarily and routinely routed through channels outside counsel's office to non-legal personnel of the client?
- Does counsel maintain independent files and records? If not, is it feasible to implement such a system to safeguard confidential materials?
- Is the client represented by both employed and retained counsel? If so, which attorney is best suited, by specialty and function, to review and analyze the confidential information at issue? (Such a review should be made on an attorney by attorney basis and applied equally to both employed and retained counsel.)

These proposed criteria should be applied to *all* counsel -- whether retained or employed.

A. Counsel's Role

As noted in Part I of this Amicus brief, attorneys -- whether employed or retained -- often fill a variety of roles for a client. In determining access to confidential information, the court should consider the responsibilities, if any, aside from the provision of legal services, of the attorneys who are to review the information. The court should then determine whether a relationship exists between the confidential information to be imparted and counsel's other responsibilities, and if so, whether revealing such information to counsel would confer a direct competitive advantage on the client because it would be usable by counsel when wearing his/her other hat.

Recently, the federal district court for the District of Delaware utilized just this approach in disclosing confidential technological information to the employed counsel of one party and declining to disclose the same information to the president of the other party. In *Safe Flight Instrument Corporation v. Sunstrand Data Control, Inc.*, 682 F. Supp. 20 (D. Del. 1988), the court questioned the "human ability" of the president (who also functioned as chief scientist) of one party to separate the information extrapolated from the confidential documents from his own ideas

and future projects, but recognized that inside counsel was not so intimately involved in the party's business. The court further justified disclosure of the confidential materials to employed counsel on the grounds that counsel was ethically barred both by his status as an officer of the court and by the Code of Professional Responsibility from disclosing the information to his client.

B. Structure of Legal Department

The internal structure and information processing systems of a corporate legal department is another important factor to be considered in determining whether to disclose confidential information to counsel. Clearly, the more segregated the legal department is from the remaining corporate departments, the less danger there will be of "inadvertent disclosure". Segregation, however, is by no means solely (or even primarily) a function of either the physical size of the legal department or of the distance between the legal department and other departments.

Of far greater significance than the physical size of the legal department or its degree of isolation from other departments is the manner in which information received by and generated by the legal department is processed and distributed. For example, the court should determine whether documents received by the legal department are routinely processed and routed through channels outside the department, thus increasing the likelihood that confidential documents received by the attorneys will be inadvertently disseminated to management or other non-legal personnel. Another key consideration in this regard is whether the legal department maintains independent files and records; or, at the very least, whether such an independent system can feasibly be established to safeguard incoming confidential materials.

Although retained counsel by their absence of physical proximity to a client would presumptively meet these criteria, the considerations suggested here are nevertheless equally applicable to them.

C. Counsel's "Need To Know" Where Client Is Represented By More Than One Attorney

In the event that a corporation is represented by both employed counsel and retained counsel, the court could determine access to confidential information strictly on a "need to know" basis. Some of the relevant criteria in ascertaining "need to know" include counsel's expertise in a

particular area and the nature of counsel's role with respect to the protected matter -- rather than on the basis of counsel's employment status. For example, if the corporate attorney is a generalist and retained counsel specializes in patent and trademark law, then retained counsel would be best suited to review confidential materials regarding those issues in a case. If, on the other hand, a retained attorney is hired as trial counsel and the employed attorney is the specialist, the same reasoning would compel the conclusion that the employed attorney is best suited to review the documents in question. (However, trial counsel would still need to review the materials and consult with the specialist.) In this manner, the issue of access is determined, as it should be, purely on the basis of an attorney's qualifications and need for access rather than resting on arbitrary distinctions between employed and retained counsel.

Thus, in determining access to confidential information, the court should consider the following factors to insure that the attorney reviewing the confidential documents is the attorney who needs to know that information in order to fulfill his role in the litigation:

- Will the lawyer be trial counsel?
- Is the lawyer/consultant a specialist in the area that the confidential materials relate to?
- Is counsel an active participant in the litigation or merely "listed" on the pleadings?
- Is there any other reason that counsel would need to know the information in order to fulfill his/her *legal* responsibilities?

IV. ANY PROTECTIVE ORDER CAN BE STRUCTURED TO GUARD AGAINST "INADVERTENT DISCLOSURE".

The FTC's assumption that there is a greater risk of disclosure of confidential information by corporate attorneys than by retained attorneys is purely speculative. In reality there is no greater risk, because any protective order can be designed to incorporate the following additional precautionary measures.

A. Limitations on Counsel

The court may require that while in the possession of defendants' counsel, the confidential materials be kept in segregated, locked files. These files would only be accessible to those designated employed counsel of defendants working on the case and other members of their legal

staff or legal support staffs with direct responsibility for this case. The court may further require that the confidential documents not be removed from counsels' offices and that the documents be marked appropriately to indicate this restriction. Finally, the court may choose to impose a "gag" order on counsel, prohibiting counsel from communicating with management with respect to the contents of the confidential materials.

B. Limitations on Management

Insofar as the court requires assurances that management is willing to abide by the terms of the protective order, it may require management to execute an express written acknowledgement to that effect. In substance, this statement would constitute an acknowledgment by management that the confidential documents are subject to a protective order and that management agrees not to seek access to the information so classified. The acknowledgment could be appended to the protective order.

C. Sanctions

All attorneys, whether employed or retained, as officers of the court, are subject to the full panoply of measures available to a court to effectively enforce protective orders. An attorney who violates a protective order by disclosing confidential information can be held in civil or criminal contempt. The district court can also impose sanctions for violation of a protective order. The availability of these precautionary measures and sanctions should provide adequate assurances, aside from counsels' independent ethical and professional obligations, that neither the confidential documents nor any of the information contained therein will be even "inadvertently disclosed".

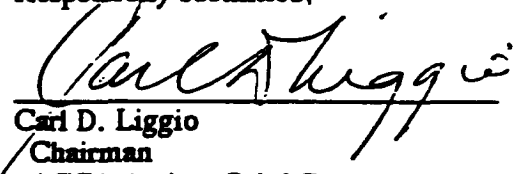
CONCLUSION

The FTC's attempt to deny defendants' counsel access to confidential documents solely on the grounds that counsel are full time employees of defendants' legal staff is arbitrary and without rational basis. The necessary effect of this decision is to severely restrict the ability of corporate law departments to provide high quality, cost-effective professional services to their clients. Accordingly, *Amicus Curiae*, the American Corporate Counsel Association, respectfully requests

that this Court deny the FTC's request since the FTC has offered no rational basis for denying the employed counsel of the defendants access to any information relevant to this law suit.

Date: August 10, 1990

Respectfully submitted,



Carl D. Liggio
Chairman
ACCA Amicus Brief Committee
277 Park Avenue
New York, New York 10172
(212) 773-2367

Of Counsel: Nancy A. Nord
Executive Director
American Corporate
Counsel Association
Suite 302
1225 Connecticut Avenue, NW
Washington, D.C. 20036

Certificate of Service

I, Susan J. Hackett, certify that on this 13th day of August, 1990, I served the Brief Amicus Curiae of the American Corporate Counsel Association in the Case of *Federal Trade Commission v. Atlantic Richfield Company, et al.*, on the following, via first class mail, postage prepaid:

Richard H. Porter, Esq.
Steptoe & Johnson
1330 Conn. Avenue, N.W.
Washington, D.C. 200036
[Counsel for Atlantic Richfield Company and ARCO Chemical Company]

William G. Schaefer, Esq.
Sidley & Austin
1722 Eye Street, N.W.
Washington, D.C. 20006
[Counsel for Union Carbide Corp. and Union Carbide Chemicals & Plastics Co., Inc.]

David O. Bickart, Esq.
Kaye, Scholer, Fierman, Hays & Handler
Suite 1100
901 Fifteenth Street, N.W.
Washington, D.C. 20005
[Counsel for non-parties Texaco Inc. and Texaco Chemical Co.]

Jim Jeffs, Esq.
Dow Chemical Co.
2030 Willard H. Dow Center
Midland, Michigan 48674
[Counsel for Dow Chemical Co.]

Spencer Nunley, Esq.
Mobay Corporation
One Mobay Road
Pittsburgh, Pennsylvania 15205
[Counsel for Mobay Corporation]

Dr. Ralph Beaumont
Brin-Mont Corporation
3921 Spring Garden Street
Greensboro, North Carolina 27407

Arthur Fullerton, Esq.
Witco Corporation
520 Madison Avenue
New York, New York 10022-4236
[Counsel for Witco Corporation]

T.A. Davies, President
T.A. Davies Company
363 West 133rd Street
Los Angeles, California 90061

Jeff Barlett, Esq.
Stepan Company
Northfield, Illinois 60093

James Peyton, Esq.
Nalco Chemical Company
One Nalco Center
Naperville, Illinois 60563-1198
[Counsel for Nalco Chemical Corporation]

Jeffrey Shank, Esq.
Petrolite Corporation
Chemicals Division
100 Norht Broadway
St. Louis, Missouri 63102

Gary Smith, Esq.
BASF Corporation Chemicals Division
100 Cherry Hill Road
Parsippany, New Jersey 07054
[Counsel for BASF Corporation]

Stuart Roth, Esq.
Senior Counsel
Olin Corporation
120 Long Ridge Road
Stamford, Connecticut 06904
[Counsel for Olin Corporation]

A.M. Minotti, Esq.
Shell Oil Company
One Shell Plaza, Room 4836
930 Louisiana
Houston, Texas 77002
[Counsel for Shell Oil Company]

Hobie Claiborne, Esq.
E.R. Carpenter Company, Inc.
5016 Monument Avenue
Richmond, Virginia 23261
[Counsel for E.R. Carpenter Co.]

Douglas Brandon, Esq.
Davis, Polk & Wardwell
1575 Eye Street, N.W.
Washington, D.C. 20005
[Counsel for ICI Americas, Inc.]

Paul Bartel, Esq.
Davis, Polk & Wardwell
One Chase Manhattan Plaza
New York, New York 10005
[Counsel for Rhone-Poulenc, Inc.]

Certified on August 13, 1990, by:

Susan J. Hackett

Susan J. Hackett, Amer. Corp. Counsel Assoc.