IN THE

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

BROWN BAG SOFTWARE, INC., A California corporation formerly known as TELEMARKETING RESOURCES, Plaintiff-Appellant, v. SYMANTEC CORPORATION, A California corporation, JOHN L. FRIEND, an individual dba Softworks Development, Defendants-Appellees. And Related Counterclaim	No. 89-16239

APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

BRIEF AMICUS CURIAE OF THE AMERICAN CORPORATE COUNSEL ASSOCIATION

Carl D. Liggio
Chairman
ACCA Amicus Brief
Committee
Melissa Zelen
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

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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, that part of the decision on appeal to this Court which denied counsel for Brown Bag Software ("Brown Bag") access to confidential information because of his status as employed counsel is of critical importance to the members of ACCA and the organizations they represent. The Court's decision effectively prohibited counsel from representing his client and denied Brown Bag the

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[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.

counsel of its choice. This decision has a substantial adverse impact on the members of ACCA and the organizations they represent.

QUESTION PRESENTED

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

STATEMENT OF JURISDICTION

This is an action for copyright infringement arising under the Copyright Act of 1976, 17 U.S.C. § 101 *et seq.*; the Trademark Law of the United States, 15 U.S.C. § 1151 *et seq.*; and for related claims of breach of contract, fraud and unfair competition. Jurisdiction is based on 28 U.S.C. §§ 1331, 1138(a) and pendant jurisdiction. Venue was based on 28 U.S.C. §§ 1391 and 1400(a). The district court granted summary judgment and dismissed the state law claims and entered the final judgment from which this appeal is taken on September 7, 1989. The notice of appeal was timely filed on September 20, 1989 within the thirty day period fixed by FRAP 4(a)(1).

STATEMENT OF THE CASE

This is an action for copyright infringement and for related claims of breach of contract, fraud and unfair competition. ACCA respectfully refers the Court to the briefs of the parties for a further statement of the relevant facts.

Plaintiff Brown Bag Software ("Brown Bag") appeals from a final judgment by Judge Robert P. Aguilar of the United States District Court for the Northern District of California, San Jose Division, dated September 7, 1989, granting

summary judgment to Defendant Symantec Corporation ("Symantec"), and dismissing Brown Bag's state law claims. Also appealed from is Judge Aguilar's decision affirming a decision by Magistrate Patricia V. Turnbull denying Brown Bag's trial counsel access to certain materials[2] deemed "confidential" by Symantec. These documents were subject to a protective order, which had been previously agreed to by the parties. When the protective order was entered into, Brown Bag was only represented by retained counsel. The stipulated protective order provided that Brown Bag's counsel would have restricted access to materials designated "attorneys eyes only" or "computer source code." The protective order did not limit access to retained counsel or prohibit access by employed counsel.

In February 1989, Brown Bag's retained counsel withdrew from the case. They were replaced by Brian Flynn, Brown Bag's General Counsel, as counsel of record in this action. The withdrawal was prompted, in large part, by financial considerations, a fact which Brown Bag made known to the court below. Although Flynn indicated he would try to get other retained counsel involved, he was unable to do so.

On March 7, 1989, Symantec moved the district court for a protective order barring Mr. Flynn, now Brown Bag's sole representative in this action, from obtaining access to the documents under the protective order.

Although Magistrate Turnbull did not question the fact that access to the information was essential to Brown Bag's case, she denied access to Brown Bag's

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[2] The materials at issue are the *source code* for computer software written by Symantec. Access to the *source code* is critical in a suit involving software copyright infringement and trade secret protection if the issue is improper copying of that software. The *source code* is normally proprietary and is considered by most computer programers as a trade secret. Access to *source code* can give a competitive advantage to anyone developing a competing product. As such it is a proper area for the application of a protective order.

counsel on the sole ground that he was an employee of the company. In reaching its decision, the court specifically acknowledged Mr. Flynn's unquestioned "good faith and integrity" and further noted that Mr. Flynn's responsibilities were limited to providing legal counsel to Brown Bag and acting as the company's Human Resource (personnel) person.

Notwithstanding these findings, however, the court below denied Mr. Flynn access to the documents on the grounds that his relationship with the plaintiff was "so close . . . that the dangers of inadvertent disclosure of information is impossible to control." *Order on Symantec's Motion for a Protective Order* p. 1 (March 8, 1989). The court then conditioned Brown Bag's access to these confidential documents on the retention of an "independent consultant, legal or otherwise" to "review and advise" counsel on the protected materials.

Thereafter, Symantec moved for summary judgment, dismissal of Brown Bag's state law claims, and the entry of final judgment in Symantec's favor. Judge Aguilar granted Defendant's motion in a decision dated September 7, 1989. Pursuant to FRAP 4(a)(1), Brown Bag timely filed its notice of appeal on September 20, 1989. Amicus Curiae ACCA now joins in Brown Bag's appeal to this Court insofar as Brown Bag assigns error to the lower court's decision denying Brown Bag's counsel of record access to certain confidential documents.

SUMMARY OF ARGUMENT

The decision below, 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 perceived concern of the district court. It also casts unjustified aspersions on employed counsel.

Similarly, Magistrate Turnbull's decision 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 decision 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 of a standard which relates to the risk to be protected against and still accommodates the legitimate interests of both parties, to determine when a court will preclude counsel from access to confidential information. (*See infra* at 11-16)[3]

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 Court's Decision Ignores the Changing Nature of the 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.[4] The growth of the

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[3] ACCA does not argue that under these facts Mr. Flynn should or should not be given access to the protected documents. Rather, ACCA's position is that an inappropriate standard was used in determining access and that the case should be remanded for a determination consistent with the standards proposed herein.

[4] 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

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.

The rationale used by the court below in denying employed counsel access to confidential information ignores the fact that retained counsel 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" 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.

Department's Compensation and Organization Practices, Report of Ernst & Young to the Association of the Bar of the City of New York (Sept. 1989).

to confidential documents critical to prosecution of a case, rejecting the *per se* rule fashioned by the lower court:

> 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 lower court's decision in this case is simply an anachronism. It not only grants unwarranted "protection" to the practice of retained law firms, but also impugns the professionalism of employed counsel without justification. The decision 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 court below 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 reversed.

II. THE LOWER COURT'S RULING EFFECTIVELY DENIES BROWN BAG 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 district court's decision was effectively to disqualify Brown Bag's counsel and was 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 his client.

In the instant case, Brown Bag is now represented exclusively by employed counsel. To require Brown Bag to seek outside representation even for the purported "limited purpose" of reviewing confidential documents will deny it of its counsel of choice for that important task and, indeed, will deprive it of its right to effective representation by counsel of its choice generally.

Denying Brown Bag's counsel access to confidential documents which are, without question, critical to the prosecution of this action will make it virtually impossible for him to prepare for trial, conduct the trial, or to advise his client on whether to proceed with the action or settle. The court's directive that Brown Bag use only retained counsel or some other independent expert to "review and advise" employed counsel on the substance of the confidential documents will not solve this problem, since counsel's ability to effectively cross-examine witnesses at trial will require his intimate knowledge of and familiarity with all relevant documents, including those subject to the protective order. Moreover, without access to the confidential documents himself, Brown Bag's chosen counsel will be unable to effectively communicate with and question Brown Bag's retained counsel or consultant with regard to the contents of the confidential documents. Counsel will simply have no way of knowing what questions to ask of outside counsel or what areas of the documents to focus on. Instead, he will have to rely

entirely on the perceptions of an individual who is less knowledgeable about the case than he is.

It is pure fiction to believe that an attorney who is ignorant of the facts of the case and who is retained for the limited purpose of examining the sought after confidential information can provide the same quality of representation as the attorney who has conducted the research for the case, is familiar with the legal problems of the client and will handle all other issues regarding the action, including the trial. To obtain any value whatsoever from the services of the "outside" counsel, Brown Bag will have to authorize its newly retained counsel to fully familiarize himself with the issues in the case in order to derive relevant information from the confidential documents and will have to pay for that time-consuming process. The lower court is, in effect, forcing Brown Bag to make a choice between retained counsel and its employed counsel if it wishes to avoid duplicative legal fees. The lower court's decision operated as an effective denial of Brown Bag's right to counsel of its choice, without justification.

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 similar 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?

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.

Applying this test to the facts here, ACCA suggests that relevant considerations for the district court would be:

- Does counsel (Flynn) have product development, design or marketing responsibilities with the client (Brown Bag)?
- Does counsel have programing responsibilities?
- Does the information covered by the protective order relate to the performance of the human resources function, and if so, how?

The first of these two non-legal functions could relate to the "source code" which is the subject of the protective order. On the other hand, running the personnel function as Mr. Flynn does, appears, on its face, to be unrelated to the protected matter. If Mr. Flynn's functional roles were limited to legal and human resources so that he was not involved in product development or programming, it would appear that, contrary to the lower court's fears, revealing defendant's confidential information to Mr. Flynn would not confer any competitive advantage on his employer.

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. In fact, it may well be the case that a legal department composed of a single, well organized attorney may be able to safeguard and segregate confidential information as effectively, if not more effectively, than a far larger department in an independent facility.

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 should 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. THE PROTECTIVE ORDER CAN BE STRUCTURED TO GUARD AGAINST "INADVERTENT DISCLOSURE".

The lower court'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 the current protective order can be modified to incorporate the following additional precautionary measures.

A. Limitations on Counsel

The court may require that while in the possession of Brown Bag's counsel, the confidential materials be kept in segregated, locked files. These files would only be accessible to Mr. Flynn, other members of the legal staff or legal support staff with direct responsibility for this case. The court may further require that the confidential documents not be removed from counsel's 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 as an amendment 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".

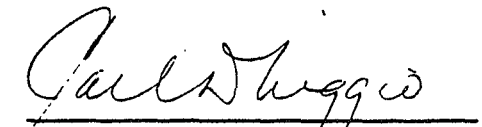
CONCLUSION

The decision below denying counsel for Brown Bag access to confidential documents solely on the grounds that counsel is a full time employee of Brown Bag's legal staff is an arbitrary abuse of judicial authority, 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 reverse the district court's opinion and remand the case for further consideration by the district court in accordance with the standards suggested here.

Date: May 2, 1990

Respectfully submitted,



Carl D. Liggio
Chairman
ACCA Amicus Brief Committee
Melissa Zelen
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

STATEMENT OF RELATED CASES PURSUANT TO NINTH CIRCUIT RULE 28-2.6

Except for the fact that the Court has considered cases, and may well be considering other cases, concerning the issue of computer software "look and feel" copyright protection, Amicus Curiae American Corporate Counsel Association does not know of any related cases pending in this Court.