LEGAL ETHICS OPINION 1838

CAN AN IN-HOUSE COUNSEL FOR A CORPORATION PROVIDE LEGAL SERVICES TO A SISTER CORPORATION AND CAN THAT CORPORATION COLLECT REIMBURSEMENT FOR THOSE SERVICES FROM THE SISTER CORPORATION?

In the facts you present, Corporation A is one of several privately held corporations in a Group, all of which are directly or indirectly owned exclusively by a single corporate entity. Corporation B is another member of the Group; Corporation A and Corporation B do not own any part of each other, but are commonly owned by the same parent company.

Patent Lawyer is employed by Corporation A to draft and prosecute patent applications in order to patent protect the discoveries/inventions that Corporation A has acquired. Corporation B has needs for legal advice regarding patent infringement and/or validity regarding patents held by third parties.

Based upon these hypothetical facts you present the following questions for determination by the Committee:

1. Whether Patent Lawyer employed by Corporation A can provide legal services to Corporation B with Corporation A's consent?

2. Whether Patent Lawyer's time/fees can be recouped by Corporation A from Corporation B for legal services rendered to Corporation B?

The principal issues here involve conflicts of interest, client confidences and secrets, division of fees with non-lawyers and lay entities billing for the provision of legal services. As a general proposition, a lay corporation may not employ a lawyer to provide legal services to third parties such as customers of Corporation A. *Richmond Ass'n of Credit Men v. Bar Assoc.*, 167 Va. 327, 189 S.E.2d 153 (1937).

However, it seems clear that Patent Lawyer can provide legal services to Corporation B as long as Patent Lawyer provides those services to Corporation B directly, independently and free of any conflicts of interest and with the consent of Corporation A.

Since the lawyer in question is a regular, active member of the Virginia State Bar he is authorized to practice law generally and may represent clients other than his employer, Corporation A.[1] *See* UPL Op. 211 (2006) (Virginia lawyer serving as corporate counsel does not need separate law office to provide legal services to *pro bono* clients). In the facts you present, Corporation A has authorized the lawyer to provide legal services to an affiliated entity, Corporation B. (*See* Rule 1A:5 Virginia Corporate Counsel & Corporate Counsel Registrants ("Employer" includes: for-profit or a non-profit corporation, association, or other business entity, including its subsidiaries and affiliates….)

[1] Under Rule 1A:5, a lawyer acting under this hypothetical scenario as in-house counsel would be authorized to represent these clients under Part I or Part II of the Rule.

While there is nothing inherently wrong with lawyers performing legal services for one party at the request of another party, it must always be clear who the lawyer's client is and to whom counsel owes undivided loyalty and confidentiality. While the interests of the two corporate clients may be identical, the lawyer owes undivided loyalty and independent professional judgment to both. Communications between Corporation B and the Patent Lawyer rendering the services must be direct and not shared with Corporation A without Corporation B's consent. If confidences of Corporation B are acquired by Patent Lawyer while providing legal services, such confidences must be held inviolate. Rule 1.6. Discharging this duty of confidentiality to Corporation B may require Patent Lawyer to work off-site, at a physically separate office, rather than on the premises of Corporation A. The lawyer must preserve the confidences of the subsidiary corporation and may disclose them only with the informed consent of the subsidiary. Rule 1.6.

Patent Lawyer must be able to exercise independent professional judgment on behalf of Corporation B free of any interference or direction from Corporation A.[2] Where a lawyer is employed by multiple organizations, a written agreement may help define the relationship between the lawyer and those organizations so as to prevent misunderstanding in his respective roles and further define the scope of the representation.[3]
If the lawyer has other interests that may limit the representation, the lawyer must obtain the client's consent after consultation; provided, however, that independent of such consent, the lawyer reasonably believes that he or she will be able to provide competent and diligent representation to each affected client. [4]

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[2] RULE 1.8 Conflict of Interest: Prohibited Transactions

(f) A lawyer shall not accept compensation for representing a client from one other than the client unless:

(1) the client consents after consultation;

(2) there is no interference with the lawyer's independence of professional judgment or with the client-lawyer relationship; and

(3) information relating to representation of a client is protected as required by Rule 1.6.

[3] RULE 1.2 Scope of Representation

(a) A lawyer shall abide by a client's decisions concerning the objectives of representation, subject to paragraphs (b), (c), and (d), and shall consult with the client as to the means by which they are to be pursued. A lawyer shall abide by a client's decision, after consultation with the lawyer, whether to accept an offer of settlement of a matter. In a criminal case, the lawyer shall abide by the client's decision, after consultation with the lawyer, as to a plea to be entered, whether to waive jury trial and whether the client will testify.

(b) A lawyer may limit the objectives of the representation if the client consents after consultation.

(c) A lawyer shall not counsel a client to engage, or assist a client, in conduct that the lawyer knows is criminal or fraudulent, but a lawyer may discuss the legal consequences of any proposed course of conduct with a client and may counsel or assist a client to make a good faith effort to determine the validity, scope, meaning, or application of the law.

(d) A lawyer may take such action on behalf of the client as is impliedly authorized to carry out the representation.

(e) When a lawyer knows that a client expects assistance not permitted by the Rules of Professional Conduct or other law, the lawyer shall consult with the client regarding the relevant limitations on the lawyer's conduct.

[4] RULE 1.7 Conflict of Interest: General Rule.

(a) Except as provided in paragraph (b), a lawyer shall not represent a client if the representation involves a concurrent conflict of interest. A concurrent conflict of interest exists if:

(1) the representation of one client will be directly adverse to another client; or

Patent Lawyer needs to be mindful of his duties of independent professional judgment under Rule 1.8 (f)(2) when determining whether or not he can provide legal services to Corporation A and Corporation B under such an arrangement. If Patent Lawyer finds that he is compromising client confidences, diligence or independence in representing either client corporation, the lawyer needs to address these issues in order to maintain his representation of both clients. The most appropriate time to deal with this issue is at the onset of the representation with a letter of representation that outlines who the lawyer would continue to represent, if either, in the event of a conflict. Corporation A cannot direct Patent Lawyer's loyalties or representation of B, which may include even the allocation of time spent between Corporation A and B in order for Patent Lawyer to provide diligent and competent representation to both.

The second question regarding whether the time/fees involved in sharing Patent Lawyer with Corporation B can be recouped by Corporation A is answered in LEO 480.[5] LEO 480 states that it is improper for a lawyer's corporate employer or parent company to charge and collect legal fees for work done by its corporate lawyer unless the fee is simply a reimbursement to the corporate employer for the actual cost of the legal work provided by the lawyer. The "actual cost" of the legal work can include the costs the corporation incurs to employ the lawyer based upon the services provided; however, there cannot be any direct or indirect profit for legal services provided. In other words, corporate counsel cannot be used to generate profits for an employer, as that would be considered fee splitting with a non-lawyer and a violation of Rule 5.4(a).[6]

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(2) there is significant risk that the representation of one or more clients will be materially limited by the lawyer's responsibilities to another client, a former client or a third person or by a personal interest of the lawyer.

(b) Notwithstanding the existence of a concurrent conflict of interest under paragraph(a), a lawyer may represent a client if each affected client consents after consultation, and:

(1) the lawyer reasonably believes that the lawyer will be able to provide competent and diligent representation to each affected client;

(2) the representation is not prohibited by law;

(3) the representation does not involve the assertion of a claim by one client against another client represented by the lawyer in the same litigation or other proceeding before a tribunal; and

(4) the consent from the client is memorialized in writing.

[5] LEO 480 analysis was based on DR 3-102 which is substantially the same as Rule 5.4.

[6] RULE 5.4 Professional Independence Of A Lawyer

(a) A lawyer or law firm shall not share legal fees with a nonlawyer, except that:

(1) an agreement by a lawyer with the lawyer's firm, partner, or associate may provide for the payment of money, over a reasonable period of time after the lawyer's death, to the lawyer's estate or to one or more specified persons;

(2) a lawyer who undertakes to complete unfinished legal business of a deceased, disabled, or disappeared lawyer may pay to the estate or other representative of that lawyer that portion of the total compensation that fairly represents the services rendered by the deceased, disabled or disappeared lawyer;

(3) a lawyer or law firm may include nonlawyer employees in a compensation or retirement plan, even though the plan is based in whole or in part on a profit-sharing arrangement; and

(4) a lawyer may accept discounted payment of his fee from a credit card company on behalf of a client.

(b) A lawyer shall not form a partnership with a nonlawyer if any of the activities of the partnership consist of the practice of law.

(c) A lawyer shall not permit a person who recommends, employs, or pays the lawyer to render legal services for another to direct or regulate the lawyer's professional judgment in rendering such legal services.

Among the problems Rule 5.4 seeks to prevent, the most important is interference by lay persons with a lawyer's practice. The involvement of non-lawyers, such as corporate employers, in the legal process is of concern because the lawyer's independent professional judgment can be impaired by the influence and control of non-lawyers who, by definition, are not subject to the same ethical mandates regarding independence, conflicts of interest, confidentiality, fees and other important provisions of the profession's code of conduct. "[F]ee splitting between lawyer and layman … poses the possibility of control by the lay person , interested in his own profit, rather than the client's fate…." *Emmons, Williams, Mires & Leech v. State Bar,* 6 Cal. App. 3d 565, 573-74, 86 Cal. Rptr. 367, 372 (1970). ABA Formal Opinion 95-392 concluded that while a corporation should be free to require its lawyers to reimburse its costs of employing in-house counsel when the lawyers do work for others, a corporation may not reap profits from the work of its in-house lawyers as that is part of the reason~~s~~ Rule 5.4 was adopted.[7]

The Committee concludes that while Patent Lawyer may provide legal counsel to both Corporation A and Corporation B, the lawyer must be mindful of his obligation to protect each client's confidences and secrets, properly address any conflicts issues between Corporation A and Corporation B, and any funds collected from Corporation B for the lawyer's services can be no more than reimbursement to Corporation A for the actual costs Corporation A incurs in employing that in-house counsel.

This opinion is advisory only and not binding on any tribunal.

Committee Opinion
May 10, 2007

(d) A lawyer shall not practice with or in the form of a professional corporation or association authorized to practice law for a profit, if:

(1) a nonlawyer owns any interest therein, except as provided in (a)(3) above, or except that a fiduciary representative of the estate of a lawyer may hold the stock or interest of the lawyer for a reasonable time during administration;

(2) a nonlawyer is a corporate director or officer thereof; or

(3) a nonlawyer has the right to direct or control the professional judgment of a lawyer.

[7] In addition, Corporation A, a lay corporation, cannot bill or collect legal fees as such activity constitutes the unauthorized practice of law. UPL Ops. 88, 91 and 94.