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10 Considerations When Your Departing Employee Is A Lawyer

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Few situations are more stressful for an employer than the departure of a key employee, especially when that employee had access to the employer's trade secret or confidential information. Unsurprisingly, employers spend significant time and energy trying to protect themselves from the risks posed by employee departures. Many of the same concerns are presented — but with a unique twist — when the departing employee is an in-house attorney.

In the majority of cases, attorney departures are handled amicably. But in the rare case, employers may feel that the attorney's departure truly puts the company at risk and may even pursue litigation against the attorney. Last year, for example, Schlumberger Ltd., an oilfield services company, sued its former deputy general counsel after she resigned to join Acacia Research Group as a senior executive. Schlumberger alleged that its former attorney "unlawfully appropriated, secured or stole" trade secrets in her final days with the company, including trade secret information that was copied unto USB hard drives and deleted from her company-issued laptop. Acacia characterized the lawsuit as a bullying tactic brought in response to a patent infringement action Acacia had filed against Schlumberger.

Similarly, in 2013, PTT LLC, a slot-machine maker that operates as High 5 Games, sued its former general counsel after he resigned and formed a competing company, Gimmie Games. PTT claimed that its former attorney had access to many of the company's trade secrets, including the mathematical models and algorithms employed in the company's slot machine games, algorithms which PTT claims appear in Gimmie's competing slot machine games. PTT's lawsuit alleges that its former attorney poached employees and misappropriated trade secrets in violation of a nondisclosure agreement he signed upon his resignation and seeks $5 million in damages.

The Schlumberger and PTT suits underscore the significant risks and difficult decisions presented by the departure of an attorney who knows trade secret and confidential information. When faced with this challenging situation, employers should consider these 10 issues.

1. Consider Whether the Attorney's Ethical Obligations Provide Sufficient Protection

Attorneys — both outside and in-house counsel — are subject to ethical rules that prevent them from disclosing information related to a client representation. For instance, Rule 1.6 of the American Bar Association's Model Rules of Professional Conduct bars attorneys from "reveal[ing] information relating to the representation of a client unless the client gives informed consent," subject to certain limited exceptions, like compliance with a court order. Rule 1.6 also requires attorneys to "make reasonable efforts" to prevent the inadvertent disclosure of or access to a client's information. Attorneys are also subject to conflict-of-interest rules that govern their ability to represent new clients on matters that are substantially similar to their work for former clients. (See Rule 1.9, Model Rules of Professional Conduct.) Employers may assume that these obligations will completely protect their interests when an attorney-employee departs. But that is not always the case.

2. Consider Whether the Attorney's Role Was Exclusively Legal

Before relying on a departing attorney's ethical obligations, employers should consider whether the employee's role was exclusively a legal one. In other words, did the employee learn everything he or she knows about the company in the context of an attorney-client relationship? If not, the employee may not have an ethical obligation as an attorney to protect that information. In some situations, this will be an easy question to answer. But given the increasingly blurred lines between in-house attorneys' legal and business roles, this question may require a nuanced and fact-specific inquiry. For example, employers should consider whether, in addition to legal guidance, the attorney gave business or strategic advice, whether the attorney acted as an inventor or engineer, and whether the employee was assigned, from an organizational-chart perspective, to a business unit or a separate in-house counsel department.

3. Consider Whether the Attorney Has Any Obligations Inconsistent With Preserving Confidentiality

It is well known that the crime-fraud exception allows attorneys to disclose otherwise privileged client information in certain situations, including, for example, when the privileged communications with the attorney are used to further a crime. This exception may conjure up images of criminal lawyers representing violent Mafiosi, but Rule 1.6 does not require the threat of physical harm and allows attorneys to disclose otherwise privileged information when the future crime will "result in substantial injury to the financial interests or property of another." Similarly, the Sarbanes-Oxley Act authorizes attorneys "appearing and practicing" before the U.S. Securities and Exchange Commission to disclose client confidential information to the SEC when necessary, for example, to prevent the "issuer" (the company) from committing a material violation that is likely to cause substantial injury to the financial interest or property of the issuer or investors.

Attorneys can also be subject to affirmative disclosure duties that may require them to disclose client confidential information in civil contexts. Employers should carefully consider whether the regulatory regime governing the attorney-employee imposes any duties that are inconsistent with maintaining confidentiality. For example, attorneys who are admitted to practice before the United States Patent and Trademark Office are subject to a duty to disclose any information material to any patent application with which they were substantially involved. (See 37 C.F.R.§ 1.56.) Critically, this disclosure obligation includes confidential information, even confidential information owned by a former client. Accordingly, employers should scrutinize the departure of patent attorneys with particular care.

4. Consider Whether Terminating an Attorney Will Allow the Attorney to Disclose Confidential Information When Alleging Wrongful Termination

Employers should consider whether the employee departed voluntarily. If the employer terminated the attorney's employment, the attorney may be able to use the employer's confidential information in a retaliatory discharge or similar lawsuit against the employer. In fact, most jurisdictions have adopted some version of ABA Rule 1.6(b)(5), which allows an attorney to reveal client information "to establish a claim or defense on behalf of the lawyer in a controversy between the lawyer and the client." Given this risk, employers should carefully consider any decision to terminate an in-house attorney's employment.

5. Consider Conducting An Exit Interview

The risks and confusion sometimes created by the departure of a key attorney-employee can be minimized by following standard human resources procedures. For instance, when an attorney-employee announces his or her resignation, employers should consider conducting an exit interview. Among other things, the exit interview might allow the employer to determine whether the departing employee is joining a competitor, to ask the employee to execute standard termination documents, and to obtain up-to-date contact information from the departing employee.

6. Consider a Post-Employment Consulting Agreement or Communication Plan with the Attorney

Regardless of whether an exit interview is performed, it is important to have a plan for communicating with the departing attorney post-resignation. In fact, in some situations it may be appropriate for the employer to explore a limited consulting agreement with the departing employee. Employers should also consider whether the departing attorney will be a potential fact witness in any current or future litigation. For instance, was the departing attorney responsible for drafting numerous contracts? Was the departing attorney responsible for conducting internal investigations or running compliance programs? These common in-house counsel responsibilities — and numerous others — may necessitate testimony from a departing attorney. In appropriate situations, employers should consider asking the departing attorney to agree to accept witness subpoenas in subsequent litigations.

7. Consider an Internal Communication Plan

The departure of an in-house attorney can be an unsettling event for a company's internal stakeholders. After all, employees may have discussed the most sensitive company matters or even embarrassing personal situations with the departing attorney. Employers should therefore consider creating a formal communication plan to identify and address any employee concerns. For example, a communication plan could include steps to explain the attorney-employee's departure, assure employees that their information is protected, and identify the appropriate contact person for employees with concerns. In some situations, employers may want to be more proactive in investigating whether employees have concerns about information they shared with the departing employee.

8. Consider Taking Steps to Ensure Return or Destruction of Proprietary Documents and Data

Employers should also consider taking steps to ensure that the departing attorney-employee has returned or destroyed all proprietary documents. This process may involve a certification during the exit interview. But given the frequency with which attorneys work remotely, employers should also consider taking steps to sanitize the departing employee's personal devices (e.g., cellphone, tablet, computer). In some situations, the employer should also consider performing a forensic analysis of the employee's computer to determine if sensitive files have been downloaded.

9. Consider Instituting Attorney-Specific Document-Creation and Document-Retention Policies

Employers may also be concerned that the departure of a key attorney-employee may result in the outright loss — as opposed to the disclosure or misappropriation — of valuable company information. After all, in-house attorneys frequently become the keepers of a wealth of institutional knowledge. In an ideal world, there would always be sufficient time for the departing employee to train and educate a replacement attorney. But this kind of smooth transition is not always possible. Employers should therefore consider establishing, when appropriate, procedures governing in-house attorneys' documentation practices. For example, the employer could establish procedures for documenting in-house attorneys' legal research and analysis, contract-drafting insights or best practices, and knowledge of ongoing or potential litigations. By instituting simple document-creation and document-retention procedures, employers can ensure that valuable company knowledge is preserved.

10. Consider the Risk of Privilege Waiver Before Suing

Before commencing litigation against a former in-house counsel, employers should consider the unique challenges involved in suing an attorney. Most importantly, it may be difficult for an employer to prove its case without risking subject-matter waiver of the attorney-client privilege. For example, if an employer believes a former attorney-employee misappropriated its trade secrets, much if not all of the documentary evidence establishing the employee's access to that trade secret information may be protected by the privilege.

Some litigants have attempted to mitigate this risk by entering into nonwaiver agreements with opposing counsel pursuant to Federal Rule of Evidence 502. But the effect of these agreements is uncertain, given that Rule 502 was written to address the inadvertent production of privileged documents in document-intensive cases, not the deliberate production of arguably privileged material. Even if a nonwaiver agreement is effective in the litigation against the former employee, it may not be effective in future litigation against an opponent who is not a party to the nonwaiver agreement. In the absence of case law upholding the validity of these nonwaiver agreements, employers should tread carefully when litigating against former attorneys, lest they lose the company's crown jewels while trying to protect them.

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