Ethical Considerations On the Internet
The Law of the Internet in California Seminar
National Business Institute - May 31, 2001

Jack Russo, John Kelley, and Michael Risch/
Russo & Hale LLP
computerlaw.com℠

Ethical issues are best presented in hypothetical examples. This allows for testing of the limits of independence, judgment, reasonableness and propriety. Put yourself in the shoes of the attorney in the hypothetical, and we will explore the ethical issues. The case is in federal court in California and entitled:

Freelance v. Macrosoft, No. C-00-30001 (N.D. Cal.)

I. The Scenario

Attorneys engaged in intellectual property litigation confront a wide range of ethical issues. The following scenario, although presented humorously, is intended to show some of the types of ethical issues that may arise during different phases of intellectual property litigation, including:

- Client Selection
- Pleading
- Discovery
- Pre-trial Preparation
- Trial
- Settlement

A. **<u>Background</u>**. Francine Freelance is an independent contractor who has written software documentation for a variety of Silicon Valley companies during the last twenty years. An acquaintance of yours at another firm who said she was "just too busy" to handle Francine's case referred Francine to you.

Francine calls you and tells you that she has "undeniable evidence" that Macrosoft Software has stolen her original copyrighted work and published it without her permission. Francine is articulate, sympathetic, and insistent. She promises to "tell you everything" as soon as she can meet with you in person. Thinking that Francine might have been wronged by Macrosoft, and hoping that your acquaintance will continue to refer other matters to you, you agree to meet Francine the next day.

B. **<u>The Initial Meeting with Francine</u>**. At the meeting, Francine tells you that she entered into a signed written contract with Macrosoft to write the documentation for its new word processor, Verbiage 8.0, which is scheduled to be released at the world's largest computer show, Conundrum 2001, next week.

Francine has brought a copy of the eight-page contract for you to review. You spend a total of three minutes skimming it and discover that the contract provided that Francine would be paid a total of $100,000 for writing the documentation for Verbiage 8.0, with an initial progress payment of $50,000 to be paid upon submission of the first draft, an additional $25,000 upon submission of the revised draft, and the final $25,000 upon completion of all work. The contract provided that all materials submitted by Francine would be deemed "works made for hire," that all intellectual property rights regarding such works would belong to Macrosoft, and that the final work must meet

Macrosoft's standards for completeness and accuracy before Francine would be entitled to receive the final payment. The contract also specified that all disputes "arising under the contract" would be resolved by means of confidential, expedited arbitration before a retired judge to be appointed by JAMS, an arbitration service in San Jose, California.

Francine tells you that she submitted the first and the second drafts to Macrosoft and was paid $75,000 in accordance with the contract. When she submitted the final draft, however, Macrosoft rejected it and refused to pay Francine the final $25,000. Francine explains that she had refused to make certain changes that Macrosoft's project manager had requested be made in the documentation, because they would have violated the "editorial integrity" of the work. The manager told Francine that if she wouldn't make the changes, he would have them made by someone else. Francine believes that this has happened, because she received an email message from a friend of hers at Macrosoft confirming that Verbiage 8.0 would be released at the Conundrum Show.

Francine feels that she is a true artist in writing documentation, and she promises that she can bring in ten witnesses who have worked with her at other companies and who can attest to the quality of her writing. Francine believes that irrespective of the terms of the contract, she has a "moral right" to control the final form of the documentation and that Macrosoft should not be permitted to release "her" documentation if it has changed a single word in what she wrote or failed to pay her in full. Although the contract contains an integration clause and a contractual statute of frauds, Francine insists that she "knows that the law is on her side," because she says the Macrosoft manager promised her "complete authority to prepare the documentation."

Francine wants to know what you think of her case. You tell her that you would like to study the contract further and think about the matter. Francine tells you that she needs a decision right away and that if you're not interested in her case, she'll "find someone else who recognizes how badly" she's been treated. While you're thinking about showing Francine the way out, she adds that she will agree both to pay you your regular hourly fees and all costs in the case and also to give you a check for $25,000 right that minute as an "non-refundable retainer" if you will agree to represent her. You tell Francine that you will study the matter right away and call her back before noon.

C. <u>The Partners' Meeting</u>. Later that morning you meet with your partners and review your notes about your meeting with Francine. When you finish summarizing your discussion with her, one of your partners asks you why you didn't "just take the check on the spot." Another tells you that he represented a subsidiary of Macrosoft in a licensing transaction about three years ago and that no others at the firm worked on this, but that he obtained a "global waiver for any future deals," so he didn't think that there was any problem in representing Francine. Another partner mutters something about what was the real reason your acquaintance didn't accept Francine's case herself. After discussing the matter, however, your firm decides to take Francine's case. You call Francine and notify her. She says that she will be at your office that afternoon with her $25,000 check and her file of evidence.

D. <u>The Next Meeting with Francine</u>. That afternoon, Francine arrives and wants to speak with you further. She signs your fee agreement without reading it and gives you the $25,000 "non-refundable" retainer.

As soon as she hands you the check, Francine tells you that she wants you to file a complaint for copyright infringement against Macrosoft immediately in federal district court in San Jose and also to file a motion for a Temporary Restraining Order (TRO) to prevent Macrosoft from releasing Verbiage 8.0 at the Conundrum 2001 conference. "They can't release that software," she says. "The documentation is mine, and they can't release the software without my documentation." Although you explain to Francine that there may be some difficulties in bringing such a copyright case because of the arbitration provision in contract, that there may be even greater difficulties in obtaining a TRO because of the legal standards that the Court would apply, and that it will be very expensive to bring a federal court action in any event, Francine doesn't want to hear any of it. She believes that "this case is a matter of principle," and she says that she is willing to "spend whatever it takes to show the world that Macrosoft can't bully Francine Freelance."

Francine goes on to explain that one of the reasons she wants to file a federal case is that she has an interview scheduled with a sympathetic reporter for the day before the opening of the Conundrum conference, and the reporter has told her that his "readers take all federal cases seriously." You attempt to discuss with Francine some of the differences between state and federal practice, including the rules regarding jury unanimity in federal court, but Francine doesn't want to hear another word. She insists upon immediate agreement to file the federal complaint and the motion for the TRO; otherwise she wants her check back and she'll look for a lawyer who "knows how to be a tough, hard-nosed,

and aggressive litigator that she thought you were." Hearing this, you tell Francine that you'll try to find some way to file the federal case and move for the TRO.

E. **The Deposition of Macrosoft's Manager**. After filing the federal complaint for copyright infringement and breach of contract, your TRO is denied. The Court also grants Macrosoft's request for expedited discovery in connection with a motion to compel arbitration. Each side is allowed to take one deposition for up to one day each, and, at Francine's suggestion, you notice the deposition of the Macrosoft manager. Five minutes before the deposition starts, Francine hands you a diskette, saying that it contains a file with a "few questions that you may want to ask." The file actually contains over 500 lengthy questions. With the diskette, Francine also gives you a cover letter insisting that you "ask each and every one of these questions to ensure that the truth is revealed." In reviewing the questions, you feel that most of them are irrelevant and/or harassing, but, fearing Francine's ire, you proceed to try to ask them all. After many objections and about an hour of following Francine's questions, Macrosoft's counsel suspends the deposition to move for a protective order, which is granted.

F. **No Expert**. After the Court partially denied Macrosoft's motion to compel arbitration, finding that the arbitration clause was drafted and should be construed narrowly, so that you could proceed with the copyright claim, it established a date for expert disclosures. You inform Francine that it is necessary to call an expert regarding prevailing standards in the software industry concerning editorial control over documentation to bolster her position. After identifying a suitable expert, you ask Francine for the $5,000 retainer the prospective expert requires. Although your fee

agreement clearly provided that Francine would be responsible for paying all costs, including the costs of experts, Francine refuses. Francine is adamant, saying that "she doesn't know anything that I don't know myself." As a result, you have no expert.

G. **The Eve of Trial**. Two weeks before trial, Francine calls you regarding your most recent bill, which includes a great deal of work for pre-trial preparation. Francine says that "enough is enough" and demands that you cease all further pre-trial preparation, even though you have not prepared her to testify, have not drafted your opening or closing statement, and have not completed your proposed jury instructions. Francine says that she "won't pay one penny" of your last bill unless you agree to cease all further pre-trial preparation. Reluctantly, you agree.

H. **The Day of Trial**. Finally, the trial is called. Before jury selection commences, Macrosoft's counsel notifies you that he has a matter that requires your immediate attention. He says that he has just learned of your partner's former work for Macrosoft's subsidiary and that he intends to move to disqualify you and your firm from representing Francine against Macrosoft. You tell him that you believe there had been a "global waiver." He tells you that he has seen the waiver and that it was deficient, because it failed to advise Macrosoft of what might happen if your firm were to represent another party against Macrosoft in litigation, as opposed to another transactional matter. When you refuse to withdraw, Macrosoft's counsel brings the motion to disqualify your firm. The Court agrees to hear the motion and postpones the jury selection for a week.

I. **The Settlement Proposal**. Before the motion to disqualify is heard, Francine demands that you make a final settlement proposal to Macrosoft. She presents

you with a demand for $1 million plus attorneys' fees, and she tells you that she wants you to notify Macrosoft's counsel that if her offer is not accepted within 24 hours, she intends to run an advertisement in the business section of the *New York Times* on the day of trial. Francine gives you a copy of the advertisement, which quotes selectively from the pleadings you have drafted and signed on her behalf.

J. **The Settlement**. The Court, saying that it was a close question, grants Macrosoft's motion to disqualify you and your firm and sets a new trial date three months in the future. Following the Court's ruling, Macrosoft offers a walkaway settlement. Francine tells you that she is willing to accept the Macrosoft's proposal if you agree to return 100% of the fees that she has paid you, including the "non-refundable retainer," because "you didn't tell me that your firm had represented Macrosoft before, and I never would have hired you if I'd known that you were really working for them all along."

K. **Post-Settlement.** Your firm receives two demand letters: one from Macrosoft asking for return of all their email and electronic files and one from Francine demanding damages.

II. Questions for Discussion

1. Should you have accepted Francine's case in the first place? If so, why? If not, why not?
2. Should you ever accept a case from a client who agrees to pay your retainer and substantial future legal fees and costs if an economic analysis of the case shows that the amount of damages that might be reasonably be recovered is far less than the expected total of legal fees and costs?

3. Should you have agreed to file Francine's case in federal court, even though you believed that as plaintiff, she would have been far better off in state court with only a state court claim? If so, why? If not, why not?

4. What if you believed that it would have been more economical for Francine to have her dispute resolved in arbitration?

5. Were you obligated to ask Francine's deposition questions? If so, why? If not, why not?

6. What could you have done when Francine refused to pay the retainer for the expert witness? Should you have done anything differently?

7. What could you have done when Francine demanded that you cease further work on the case? Should you have done anything differently?

8. What if Francine had also told you that she be called as a witness so that she could "tell her side of the story and let the jury decide" based on her testimony only?

9. Can Francine run the ad in the *New York Times*? How would you advise her about it? If Francine runs the ad, do you have any potential liability?

10. What should you have asked your partner about his former representation of the Macrosoft subsidiary? Should you have told Francine anything about your firm's former representation of Macrosoft? Should you agree to Francine's demand to return all of the fees you have received?

11. How does your firm address Francine's demands?

12. How does your firm address the return of old email and old electronic files that may (or may not be) on multiple backup tapes?

III. Encryption and Privileges.

The last question above raises, a topic that requires special attention, is the effect of the internet on the attorney/client privilege and management of electronic information. Given the explosion in electronic mail communications, it is not surprising that attorneys and clients are discussing more and more issues via email. A key question – which does not have a definitive answer even today – is whether or not the attorney-client privilege is waived if those communications are not encrypted. On the one hand, because electronic mail can be intercepted relatively easily, there should be no expectation of privacy. On the other hand, postal mail and telephone communications can also be intercepted, and just because someone can commit a wrongdoing to intercept a message shouldn't waive the privilege, especially if no one is actually doing the intercepting.

No case has definitively ruled on whether encryption is required.[1] However, the American Bar Association released an ethics decision [2] that states that in the view of the ABA, the privilege is not waived by unencrypted email:

> The Committee believes that e-mail communications, including those sent unencrypted over the Internet, pose no greater risk of interception or disclosure

---

[1]A good discussion of the issues can be found in Winick, et al., Playing I Spy with Client Confidences: Confidentiality, Privilege and Electronic Communications, 31 Tex. Tech. L. Rev. 1225 (2000)

[2]See ABA Comm. on Ethics & Professional Responsibility, Formal Op. 99-413 (1999). A copy is located at http://www.abanet.org/cpr/fo99-413.html.

> than other modes of communication commonly relied upon as having a reasonable expectation of privacy. The level of legal protection accorded e-mail transmissions, like that accorded other modes of electronic communication, also supports the reasonableness of an expectation of privacy for unencrypted e-mail transmissions. The risk of unauthorized interception and disclosure exists in every medium of communication, including e-mail. It is not, however, reasonable to require that a mode of communicating information must be avoided simply because interception is technologically possible, especially when unauthorized interception or dissemination of the information is a violation of law.

This, should carry great weight with the courts.

Of course, this doesn't answer the question of whether electronic mail should be encrypted. Is it malpractice to not encrypt email? After all, even if the privilege is not waived, the information may be discovered. Should the standards used by the client be considered? If the client does not encrypt, then why should the attorney? Should the attorney simply give the client a choice? Some firms do this, and the state rationale is that most clients do not want to bother with encryption. Other firms will send a disclaimer with each and every message that the text is confidential and should not be read. The efficacy of this is dubious, however – stamping confidential on a document and then handing it to opposing counsel would never be considered sufficient protection of communications. There are many precautions that go beyond the obvious; we will discuss these further at the seminar.